



STATE OF ILLINOIS
PROCUREMENT POLICY BOARD

Terrence Healy, Chairman
Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

2005 Procurement Policy Board Minutes

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Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – January 26, 2005 Meeting

Chairman Healy called the meeting to order at 10:30 a.m. in Room 416 in the Stratton Office Building in Springfield.

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the December 10, 2004 and December 17, 2004 meetings. The motion to approve the December 10, 2004 minutes by Member Morales was seconded by Member Bass and unanimously approved pending a minor amendment. The motion to approve the December 17, 2004 minutes by Member Morales was seconded by Member Bedore and unanimously approved.

The next item discussed was the 30-day contract review. PPB Director Brown addressed the Board and audience. He stated that an electronic system has been established that allows the PPB and the various State agencies to exchange information on contracts. The results so far have yielded 168 transactions of which 3 were posted with intent to review. In the Board's intent to review, there were 2 subjects: Sole Source transactions and Emergency transactions. In regard to Sole Source transactions, the staff recommendation is based on several transactions posted in the Procurement Bulletin. He stated that there is an appearance that the justifications for Sole Source transactions are not being considered as the primary reason for that method of selection. He further stated that the determination on these Sole Source transactions appears to consider extending existing vendor relationships instead of determining that competitive selection is infeasible. This seems to be part a cultural presence imbedded from many years of past practice. There is a lack of justification relevant to the Procurement Code or Administrative Rules as to why they were justifying a Sole Source transaction. Mr. Brown continued by stating that upon Staff review of the transactions, there appeared to be nothing additional that was out of order and that the Staff recommendation is to explore changes at the policy level.

Mr. Brown next spoke of Emergency transactions. He stated that an emergency contract was issued with a term of 5 years. He expanded that during the existence of an emergency a competitive selection is typically used to satisfy the States long-term goals. The five-year term appears excessive and the Staff recommendation is to review the circumstances and determine if a policy change is necessary to reduce this type of exposure.

Chairman Healy then asked if CMS was aware of the 3 under review to which Mr. Campbell replied affirmatively to those under CMS jurisdiction. Mr. Brown then stated that the one of

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them is a Higher Education contract, not a State agency contract under the discretion of CMS but it is the same sole source scenario. Mr. Campbell stated that he had not looked into the issue with any great detail but stated that CMS is compiling the documents that were requested and will provide them by the required date.

Chairman Healy stated that a question have come up about what is the actual process. He asked if Mr. Campbell wanted to make any comments. Mr. Campbell stated that he thinks the new rules for review are helpful to all involved. Questions from agencies have been "Is the Board inquiry a review/not a review, what should we expect from the Board".

Chairman Healy stated he feels the question is identifying whether the Board is going to review a particular matter. Mr. Campbell stated that some language was recently included in the Board's messages that states, "This is not a formal review, just a clarifying question so that a waiver can be considered". Mr. Campbell stated that he believed that clarifying language allows CMS to find the needed information to forward to the Board and from there, the Board would makes it's determination as to whether or not to review the contract. Mr. Brown stated that from a Staff perspective, the initial look at a contract is from a workflow management point of view and the Board may request more information as a way to get to issuance of a waiver. If it is the Board's intent to review the message would be sent to expect a review with detailed questions and concerns forthcoming.

Mr. Brown further stated that the Board is required to provide the information regarding policy concerns to the Agencies under the context of the review and that the Board strives to be able to provide that information as quickly as possible. He then asked the audience participants if there is a particular direction they wish the Board would go when documents are compiled in response to a notice to review. No suggestions were registered. Next, Director Brown asked that as part of the creation of policy concerns within the reviews that the Board Members clarify any intent they have so that the staff can reflect the will of the Board on paper. With no opinion, objections or otherwise heard, Mr. Brown then asked if the correspondence initially sent to the agencies was satisfactory to which Mike Smith, Central Management Services SPO, replied it was clear and satisfactory.

Member Bedore moved on to ask Mr. Campbell what the policy is regarding a contract being increased after it has been awarded due to increased costs to which Mr. Campbell replied that it depends on the contract terms. He further stated that if he has the ability to hold a vendor to the contracted amount, he will, however, if he doesn't believe he can hold the vendor to the price while still receiving the quality or continuance of service expected, he would have to take all aspects into consideration in order to get the ball across the goal line so to speak. He continued by stating that it depends on case specific facts. Member Bedore specifically brought up the State contract with Manpower that is being increased by \$140,000 due to an unemployment insurance increase. He stated that he has had concern with this contract and he believes it was improperly awarded. Specifically, Member Bedore asked why the contract was being increased when at the June 21, 2004 Board meeting, Mr. Campbell stated that he didn't care about a vender's margins or even if they lose money on the contract. Mr. Campbell responded that it couldn't be looked at as a general policy but this issue needs to be looked at on a case-by-case basis. Mr. Campbell replied that he feels if the State had not agreed to the increase, the eventual cost to the State would have been much more. Member Bedore insisted that a vendor should know that an increase is imminent and asked why Manpower didn't anticipate the change.

Member Bedore then proposed a review of the policy of increasing a contract after the contract has been awarded. Chairman Healy stated that he'd like for CMS to make a presentation at the next Board meeting regarding this issue and possibly in regard to this particular Manpower contract. Mr. Campbell stated that he would comply.

The Board next discussed Strategic Sourcing and Procurement. Mr. Campbell addressed the Board on this issue. He elaborated on the Agency's intent to contract for a spend management plan with Bearing Pointe to help CMS evaluate procurement expenditures for commonalities, efficiency and compliance in sourcing in order to maintain initial savings throughout subsequent years. This will move this practice from a manual process to something that will be automated that captures all transactions with greater transparency. He introduced Ms. Shelly Martin, Chief Knowledge Officer as an individual heavily involved in this matter and would serve as a resource to the Board in questions about Spend Management develop.

Chairman Healy asked Mr. Campbell about the time frame for implementing this process and Mr. Campbell answered by saying that that the technology piece to implement is the second step. The first step is to have Bearing Pointe examine the current systems to see what we are current capable of. Mr. Campbell stated that he would like them on board as soon as possible and have an idea of where the State can go in about 6 months. Then the long-term strategy can be developed.

Member Bass asked of Mr. Campbell's confidence level regarding savings from better procurement when Bearing Pointe is now needed to get the transaction level detail required. He also asked Mr. Campbell if CMS integrates distribution cost into savings or if it is mostly based on buying volume. Mr. Campbell responded that from a compliance perspective, we are getting the data but it is a time consuming and a manual process. Without this follow up, as much as 30% of initial savings could be lost in subsequent procurement. Regarding distribution, he stated that the total cost of ownership approach is used and takes distribution into consideration.

Member Bass then asked Mr. Campbell if in that model there are terms for delivery to desktop and if in the approach we extract benefit from favorable delivery systems that benefit the State rather than an uncontrolled delivery method that drives up suppliers' costs. He stated that it is usually not integrated in sourcing at initial restructuring. Member Bass then stated that in proving up these savings the numbers are not very reliable and that is important to be aware of that circumstance. No further comments were made.

Mr. Campbell brought up the statute for Small Business Set Aside. He stated that CMS is aggressively marketing this set aside to small businesses. He views this program as an underutilized and wants to encourage this set aside. He states that the set aside categories have grown from 45 to 60 and that the process is being made easier to set aside individual transactions. He noted that the support of the small business set aside is also an economic engine that drives the State's economy, as Illinois small businesses are a major part of the States economy. The other area of emphasis is the goals for minority owned, female owned and business on by the disabled. As an enhancement, more emphasis is being applied in the compliance arm of the program to ensure that the applicants are credible and that the program is not being manipulated.

The Chairman concurred on the importance the credibility of the applicants. No other comments were offered.

Next the Board discussed Reverse Auctions. Member Bedore asked what has been done in regard to Reverse Auctions. Executive Director Brown responded that at this point, the Board is at a position in which an agreed upon version of the language has been established and that Senator Schoenberg has agreed to carry the legislation in the Senate. An opportunity has been and scheduled to make presentations to members and staff of the House for their consideration. He further stated that the drafting deadline is February 2 and drafts will be made through the LRB. Paul Campbell stated that Mike Smith was the Point person from CMS on the issue. He also stated that he believe the effort to be on-track.

Concerning legislation Member Bass asked if it is worthwhile to look at the purchase thresholds in the Procurement Code. Member Bass said that the issue of established thresholds should be examine to make sure that the threshold are realistic compared to inflation and whether the levels are functional. Mr. Campbell stated that he would be willing to put that issue on the table.

Member Bedore addressed Mr. Campbell with a final question regarding Strategic Sourcing and Procurement. He stated that Chairman Healy asked for a copy of the letter to the Small Businesses and that CMS agreed to supply them. Member Bedore stated that he thinks it would be helpful to the Board Members if the Board were to be supplied with information so that they can be up-to-date.

Mr. Brown spoke up in regard to CMS supplying the Board with requested documentation, that the particular point was a copy of correspondence that CMS was sending to small businesses notifying them of the programmatic change. Chairman Healy then asked Mr. Campbell if he could get a copy of the letter to staff for distribution to the Board members prior to the next meeting. He replied affirmatively.

Next, Mr. Bruce Washington addressed the Board regarding Property Management. Mr. Washington stated that CMS is working on alleviating holdover leases. He further stated that CMS is looking to get RFI's out on the street in blocks of about 30 at a time. Additionally, he said that CMS is looking into some of the holdover leases to see if the agency can be put into a State owned facility or possibly in another leased facility that has excess space. Mr. Washington then stated that at the last meeting of the Procurement Policy Board, CMS provided the Board members with a copy of the new lease agreement. He stated that the Board had asked for more time to look at the document and that he is prepared to answer any questions the Board may have regarding the lease document at this time. Chairman Healy stated he had no further questions, as did Member Bedore.

Member Bedore then asked to address Mr. Campbell again. He stated that the legislature is considering legislation to "buy Illinois". He further stated that the Board will probably be asked to weigh in on it and he asked Mr. Campbell for his feeling on the concept. Mr. Campbell responded that he personally is supportive of the proposal. He added that analysis is important so that a preference doesn't have unintended consequences on Illinois business that are not doing business with the State but could be negatively impacted. Member Bedore suggested that Staff look at what other States are doing in regard to this and Chairman Healy agreed. Staff responded that that they would research the issue.

Next, the Board discussed Expatriate Corporations. Chairman Healy stated that the Comptroller's office raised the issue of Expatriate Corporations several months ago and requested the Board look into it. He continued stating that he feels it is important that not just Expatriate Corporations, but any corporation that is domiciled in another country giving them a tax advantage or tax haven be examined in this review. Also until the analysis is complete that CMS and the State consider contractually limiting these companies in order to guarantee tax compliance. It was also recognized that other states and AFSCME have legislative agendas that considers specific treatment of these circumstances.

When the Chairman asked if there were any questions or comments from the Board Members, Member Bedore stated he would like to see what AFSCME is proposing. Member Bass concurred with this research and suggested examining the initiatives in other states.

Chairman Healy then asked if there was anyone in attendance from the Comptroller's Office that would like to make a comment. Ms. Whitney Rosen expressed appreciation to the Board for looking into Expatriate Corporations to which Chairman Healy thanked the Comptroller's Office for bringing the issue to the Board's attention. She stated that the Comptroller would like to be kept informed and would be monitoring the issue.

Other business of the Board was next on the agenda. Director Brown asked the Board to continually think about the frequency that they wish to meet to continue to develop the contract review process and handle issues under its jurisdiction.

Member Bass asked as a matter confirmation when the 30-day review begins and about the waiver. Staff replied that the clock starts when the intent to award is posted to the Bulletin and that the process of a review if concluded early would result in a waiver to expedite the transaction. Staff also commented the review could span beyond 30 days in order to grasp the subject and be completed after the 30 days has opportunity has passed.

Chairman Healy asked Will Blount, Procurement Analyst to the Procurement Policy Board, how he felt the process is going to which Mr. Blount replied he feels it is going very well and that Agencies are responding in a timely matter.

The next meeting was scheduled "to be announced". Member Morales moved, seconded by Member Bedore to adjourn. Upon unanimous approval, the meeting of the Procurement Policy Board was adjourned at 11:40.

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – March 4, 2005 Meeting

Chairman Healy called the meeting to order at 10:30 a.m. in Room 16-503 at the James R. Thompson Center in Chicago

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the January 26, 2005 meeting. The motion to approve the minutes by Member Bedore was seconded by Member Bass and unanimously approved.

The first item discussed was CMS contract amendments. Paul Campbell and Mike Smith were on hand to represent CMS. Mr. Campbell stated that it is his understanding that what the Board is looking for is when and how determinations for amendments and/or changes to a contract take place. He stated generally that it is dictated by the terms of a contract. Mr. Smith stated that he believed the question put to CMS was what is the policy on contract amendments specifically regarding an increase in price. He went on to state that CMS does not enter into a contract with the intent to amend it in the future. Sometimes during the term of a contract, it is necessary to make an amendment due to unforeseeable circumstances. He further stated that a number of years ago, the General Assembly recognized this and put language in the Criminal Code discussing change orders or contract amendments. He stated that CMS looked at this provision to determine whether a change was necessary. He stated that this section of the Criminal Code discusses three areas. Those areas are: unforeseeable circumstances, a need for a change as identified and is germane to the original contract and when it is in the best interest of the State. He stated that he knows that is a broad statement and “when in the best interest of the State” could include a number of circumstances.

Mr. Smith further stated that rules apply when a contract is re-negotiated, and sometimes language in a contract allows for a re-negotiation, the actual definition of the contract includes re-negotiating that allows a subsequent contract to be entered into as part of the original. He stated that when there is a need to extend time to complete a contract there is usually not an increase in the cost. Mr. Smith stated that another area related to contract amendments is Sole Source and Emergency procurements. He stated that Procurement Rules identify times and circumstances when a Sole Source agreement can be entered into. One of these circumstances, Mr. Smith stated, is if there is a change that is identified that is germane to an existing contract or other rules that allow, to make a change to the terms, rate, price, etc. and to post that as a sole economically feasible source contract. In regard to emergency contracts, Mr. Smith stated that it

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is a given that amendments may be required; sometimes prices increase but emergencies by definition would allow for that.

Mr. Smith further stated that CMS goes to extremes to ensure an amendment is the proper approach. He said that there is now a system in place that requires a business case to be completed for every procurement including amendments and Sole Source procurements. All of these must go through an approval process, he stated, Sole Source procurements require extra scrutiny with CMS's Legal Department. He then asked if there were any questions from the Board Members. Member Bedore stated that he inquired at the January 26th Board meeting for CMS to make a presentation regarding the Manpower temporary services contract which was increased by \$140,000. He stated that when the contract was originally let, he felt it was a very close call. He stated that \$140,000 out of a million dollar contract is a big number and that maybe it's not a close call anymore. He stated that Manpower is a major corporation that should have known what unemployment insurance cost is. Member Bedore asked CMS why that contract wasn't re-bid and stated that he feels CMS will extend the contract.

Mr. Campbell asked for clarification of Member Bedore's question to which Member Bedore asked why did CMS amend the contract giving Manpower an additional \$140,000. He further stated that he originally raised this issue last year to which Mr. Campbell stated that he didn't care about the temporary staffing agencies bottom line but now CMS is increasing the contract. Chairman Healy interjected to state that part of the question was under what provisions was this amended to which Mr. Smith stated this comes under the "unforeseeable circumstances" provision to which Chairman Healy asked what were the unforeseeable circumstances. Mr. Smith stated that it is his understanding that Manpower did anticipate an increase in their unemployment insurance, however they did not anticipate a 242% increase. In turn, CMS felt this increase was justified. He further stated that in the Manpower contract there is a clause that discusses unforeseeable circumstances where price could be renegotiated. Chairman Healy asked how a corporation that size could not anticipate that large increase.

Mr. Campbell stated he would like to address Member Bedore's question before asking Nancy Wuttke, Portfolio Manager of General Services to address the Board. He stated it is being speculated that the \$140,000 increase to Manpower's contract would have changed the outcome. He further stated that he does care about the bottom line, the State's bottom line, and in this particular instance, Manpower had the option to stop supplying the State with temporary help and representation made to CMS was that Manpower would do that if they couldn't get the increase. Mr. Campbell stated that CMS went to their two biggest customers, IEPA and the Department of Revenue, and told them there is a secondary vendor, Kelly, but had Manpower walked away, Kelly would have also gotten the increase due to a clause in their contract which allowed them to make the increase. He stated that regardless, CMS would have had to pay the increase. He further stated that CMS asked IEPA and Revenue what impact would this have on the disruption of service if a switch from Manpower to a different provider were necessary. Mr. Campbell stated for Revenue in particular, the operational implications of having to retrain and the cost associated with disruption of their services forced on the statutory requirements they have to make deposits and handle money during their busiest time of the year would far outweigh any increase to the contract. Mr. Campbell then made way for Nancy Wuttke to address the Board.

Ms. Wuttke stated that none of the vendors built the increase into their price as none of the vendors could have anticipated the unemployment rate increasing as much as it did. Secondly, Ms. Wuttke stated that had Manpower decided they couldn't handle the contract with the State, the rates would have increased in order to go with the second vendor not including the transition of temporary employees. Chairman Healy reiterated what Ms. Wuttke was saying is that any one of the vendors would have the capability to increase the cost to the State to which Ms. Wuttke replied affirmatively. She further stated that any one of the vendors could have come back to the State saying they hadn't anticipated this increase and raised their rate. Member Bedore asked if the contract made that statement to which Ms. Wuttke replied that Manpower did but that Kelly did not. Member Bedore then stated the he understands the issue with Revenue but he stated about re-bidding the contract which would take 2-3 months that it would be past Revenue's tax time. Mr. Campbell stated that this temporary services contract is under review to renew and that thoughts are being driven by other issues which he will provide information to the Board at the next meeting. Member Morales asked if there is any way to put a cap on "unforeseeable circumstances" to protect the State. Ms. Wuttke replied that initial fixed prices couldn't be adjusted prior to end of contract.

Member Triche-Colvin asked looking at this from a historical perspective, what the anticipated increases were and if those historical percentages were available, to which Ms. Wuttke replied affirmatively. Member Triche-Colvin then asked in reference to Kelly, how much the state would have had to increase their contract by to obtain their services. Ms. Wuttke stated that the amount would have been substantial. She further stated that information is not available but that she could supply it. Member Triche-Colvin stated that she couldn't engage in any further dialog without having the numbers to look at the background.

Member Bass stated that in the contract there was a primary and secondary vendor, then he asked if the secondary vendor had a guarantee of volume to which Ms. Wuttke replied that neither vendor did. Member Bass then stated that he found it intriguing that with the unemployment insurance problem that it gave Manpower leverage against the State in regard to the cycle it is going through with it being tax time. He then asked when could Manpower exercise the option under the contract to which Mr. Smith replied to verify what was being asked was does the Manpower contract have a termination clause for this issue and Ms. Wuttke replied that it is not in the contract that Manpower has to fulfill the need for a certain amount of bodies. She further stated it was a business decision; that Manpower did not come to CMS stating that if the State doesn't increase their contract that they would "cut out of here". It was a business dilemma where with the increase in the unemployment taxes, Manpower would lose a lot of money and asked if there was a way to work it out. Member Bedore asked if there was something in the contract that would allow Manpower to hold back services to which Ms. Wuttke replied that the contract did not state a minimum requirement of temporary workers. Member Bedore then asked how could Manpower just walk away to which Ms. Wuttke replied that Manpower had a certain amount of time to fill the positions that the State has and if Manpower were to come back and say they were unable to get a temp in that position in the allotted time, then the State could go to its second vendor.

Chairman Healy verified that Manpower couldn't actually cancel the contract; they just wouldn't send anyone to the job and Ms. Wuttke affirmed. Mr. Campbell stated that CMS's driving concern was the possible disruption of services to DPA and Revenue. He further stated that given the timing of this increase, CMS felt this was the best business judgment. Member Bass

asked when the increase was known to Manpower and Ms. Wuttke replied the initial notification was in February 2004 with the increase being retroactive to January 2004. She further stated that they were again notified in November 2004 of yet another increase to take place in January 2005 and that is when Manpower approached CMS stating that they had absorbed the initial increase but that the second would be detrimental.

Member Bedore asked about the current temporary employees in reference to Manpower inability to fill positions to where the State would then approach the secondary vendor. Ms. Wuttke replied that Manpower has the option to not refill a position. Chairman Healy then asked if Manpower could pull an employee and Ms. Wuttke replied affirmatively. Mr. Campbell stated that Revenue was gearing up a pipeline of people and that there weren't a lot of people already on the job. Member Bass then stated that it goads him that Manpower could say that although they have the ability to fill or refill a position, can refuse because it's bad for their business due to the increase in unemployment insurance. However, he further stated that on the other hand, if they don't fill a position simply because they can't, that's a different situation. Chairman Healy asked when Manpower came to CMS, if they stated the situation and asked CMS to talk with them about it, to which Ms. Wuttke replied affirmatively. She stated that Manpower approached the situation wanting to work with CMS; CMS then went to Revenue and DPA and decided not to risk the turnaround time that would affect Revenue during their busiest time of year. Member Bass then asked if when Manpower responded to the RFP, on their indirect cost, did they identify an increase to which Ms. Wuttke responded negatively.

Member Triche-Colvin asked if Manpower could face a penalty if they were to pull out coming to the State with their business proposition saying they were losing money and wanted to work something out and the State saying they couldn't help. Ms. Wuttke replied "not under the terms of the contract". Member Triche-Colvin then asked what is the process that the State can put in place so that it isn't in this same position in a year to 18 months. Mr. Campbell stated that CMS can look at caps but any contract is the result of negotiations. There is give and take in all negotiations and that all CMS can do is use their best business judgment. He further stated that CMS has updated terms and conditions that try and put the government in a better position so the State has the most leverage. The Board had no further questions.

The Board next discussed Vendor Incentives. Chairman Healy stated that he has some concerns. He stated that while receiving incentives upfront would help with the budgetary problems the State is currently facing it would be possible that the cost is going to be that much more because of the incentive they are giving up front is additional cost to the State and therefore it could hurt future budgets. Secondly, Chairman Healy asked what would the State do in a situation where one vendor can pay an upfront incentive but the next vendor's actual cost is less than that of the first. Mr. Campbell first stated that it's difficult to know with certainty whether a vendor based the cost of a rebate on the cost of the life of a contract. He further stated that looking at the recent debate regarding Caremark that the biggest issue that the legislators had was the lack of visibility into Caremark's pricing. The Legislators wanted to see the pricing so they could see the rebates that Caremark was getting so that those rebates would be passed on to the State. CMS looks at Total Cost of Ownership and they are proposing asking the vendors to price bids both with an incentive if the vendor chooses to do so and without an incentive. Chairman Healy asked how it would affect small and medium size companies to which Mr. Campbell replied that this is the first contract in over a decade that has a 19% goal associated with it where any large of majority firm would have to bring to the table a minority, woman owned or disability firm and

CMS has built into this RFP incentives for them to include those types of small businesses as part of this contract. He further stated that because of the way they have structured this contract, the State will be bringing millions of dollars that will go into these small businesses. In addition to that, Mr. Campbell stated the way the contract is set up overall, setting aside a rebate or incentive, the requirements for the volume, for next day shipment, for technology, he doesn't believe a small business could have done that anyway. Member Morales asked if this would restrict small to medium sized businesses in anyway and Mr. Campbell responded "not at all". He further stated that the incentive would be between the State and the primary vendor but the primary still are required to bring participation to the 19% level of subcontractors who are either woman owned, minority or persons with disability firms. Mr. Campbell also stated that he didn't believe the rebate structure would impact their ability to bring those businesses to the table.

Chairman Healy stated that his concern with other contracts, that small or medium sized businesses might be limited due to the inability to offer incentives or rebates. Mr. Campbell replied that he is a firm believer in the rebate practice and that Virginia is asking for rebates and California is asking for them on a quarterly basis. He further stated he has talked with colleagues in other states and there are a number of industries that are doing the incentives and they are not doing them in small contracts. Member Morales asked if a large business could buy the contract by giving incentives to which Mr. Campbell replied negatively. He further explained that if a large business that can provide the lowest total cost of ownership and the best deal for the State then CMS would evaluate that. If a business chooses not to offer an incentive or rebate yet they offer the lowest total cost of ownership, then that company will still win the contract.

Member Bedore then stated this would be a judgment call and he does not like it at all. He further stated that this shows him and the general public, how bad off the State is. When the State has to resort to having vendors come up with cash, Member Bedore stated, it essentially straps the State for the length of the contract. He further stated that if "Company A" writes out a check to the State, that money will work its way into the contract price; if it's a five year contract, the State is then strapped for the next 5 years and the next administration will pay the higher cost. He then stated that the most egregious part of this concept is on local government; these contracts build in higher price and will reflect onto every municipality the State does business as a partner with. Chairman Healy stated that he appreciated that and on the particular contract Mr. Campbell was referring to, was being bid both ways, with and without a rebate.

Member Bedore asked to make another comment. He stated that the Procurement Policy Board's purpose was to have more people advising on purchasing and he feels the Board is being totally ignored. He further stated that there were a few instances where things have not been brought to the Board, the incentives or rebates being one and Small Business Development being another. Member Bedore then asked why the Board was not involved with these major changes. He stated that CMS is totally ignoring the Board that that they always have. Mr. Campbell replied that he feels Member Bedore's characterization is a mischaracterization. He further stated that he did bring the work CMS was doing with the Small Business Development Association to the Board to which Member Bedore replied, "After you were requested to do so". Mr. Campbell rebutted that it was prior to the televised comments by Director Rumman. He further stated that he didn't feel Member Bedore's comment on this was accurate "with all due respect". Mr. Campbell continued that he feels Executive Director Matt Brown and CMS SPO Mike Smith have a very good working relationship and that calls from Mr. Brown to Mr. Smith have never been restricted. He further stated that he didn't recall the Board coming forward with

any comments on the rebate issue on the Caremark contract. He stated that rebates have been a practice in the State for procurement for years. Mr. Campbell stated that this is not a new practice nor one that he feels CMS should have been on notice to discuss with the Board. He stated that he agrees asking for rebates upfront is more aggressive but he doesn't feel the practice is unorthodox. He also stated that he feels CMS enjoys open communication with the Board and that it is unfair to say CMS is uncooperative. He then asked if any other Board members would comment. Chairman Healy stated that he'd first like to say that he feels communication between CMS and the Board is better than it has been in the past but at the same time, Mr. Campbell himself admitted that this was a more aggressive approach and the Chairman stated it would have been much nicer to hear about it from CMS that there was to be a change to a much more aggressive approach. He continued by stating that unless the Board is made aware of changes, Mr. Brown couldn't go to Mr. Smith and ask if there is going to be a more aggressive approach on any particular matter. He further stated that without a doubt, communication has been better than it had been in the past and he doesn't want to show that it hasn't been. He lastly stated that he thinks there are times when changes have been made by CMS where it would be helpful to keep the Board informed much sooner than the members reading about it in the newspaper.

Member Bedore stated that its not just informing the Board, he thought the Board was a resource and that when these changes affect every municipality across the State. He feels this is a major change. Member Morales stated that he agrees with Chairman Healy; that communication is better than it had been in the past. In this case, he feels that CMS could have been more proactive.

Member Triche-Colvin stated that she sees both sides of the issue, as she has been on the Board since its inception with both Member Bedore and Executive Director Matt Brown has often wondered "why am I here?" She wanted to go back in time a little and she stated the reason the Board was created was due to irregularities in contracts and with current talk about a different way of doing business and about new Rules and Regulations the State is putting into place the Board should be informed. She continued stating that whether these changes are a good thing or a bad thing is not what she feels the issue is. She feels that the issue is for these changes to be brought before the Board and for CMS and the Board to have open communications prior to the implementation of changes. Although Member Triche-Colvin agrees that there is better communication, but better communication and more communication does not always mean honest communication.

Member Bass stated that it is all prospective. He stated that the public doesn't understand this move and it gets mixed up in the fact that the State doesn't have money now. He further stated that he doesn't expect an answer; that he just wanted to give Mr. Campbell a different perspective. Member Bass stated that he understands rebates, but when public dollars are at stake, the accountability is measured differently. He stated he supports Total Cost of Ownership as well. But when it comes to the "aggressive" components there is a higher standard at the Board wishes to be involved. Mr. Campbell responded that he appreciated the feedback.

Next the Board was next addressed by Mr. Bruce Washington for an update on IPAM. Mr. Washington stated that CMS put forth a sole source contract for facility condition assessment for the balance of 40 million square feet of assessment. The original contract called for 10 million square feet to be assessed by IPAM with the remainder to be outsourced. He stated that it was in the best interest of the State and economically feasible to continue with IPAM. This allows

CMS to get all data in the Space Utilization report as CMS has been questioned about the lack of data, the consistency of reporting by the Attorney General's office. Mr. Washington stated that IPAM did assess the initial 10 million square feet and in addition to IPAM providing resources, an RFP would have lost 4-6 months in going through the process of selecting another company. He further stated that in looking at the market rate, this was below market and CMS felt it was a win-win situation for the State. Chairman Healy asked to clarify that the State doesn't have any personnel with the expertise to do this facility condition assessment to which Mr. Washington replied negatively. He stated that the information input has to be quality information and accurately portray the facilities; it has to be consistent. Member Bedore asked if IPAM is replacing AFSME employees; what are the employees doing who used to do the work that the IPAM employees are now doing to which Mr. Washington replied that IPAM is not replacing State employees and will transfer knowledge to the State. Member Triche-Colvin then asked if there would be additional projected savings with the extension to and Mr. Washington replied that the savings would be nominal, as it will be paid for in the previous model where outsourcing was to take place. Mr. Washington stated that he didn't have a figure available to him but that he would supply the Board with such. He continued stated that the savings comes from what the original contract work would be versus what it is now. He stated that CMS is paying about 5 cents per square foot where the market rate is anywhere from 8 – 10 cents per square foot. Member Morales then stated that the original plan is going to continuously evolve to which Mr. Washington stated that CMS changed models; that the original plan was to have the outsourced facility managers do the facility condition assessment now CMS will do it. Member Bedore asked when CMS would take over and Mr. Washington stated in January of 2007 at the end of the three-year contract.

The next issue before the Board was Contract Review. Mr. Brown addressed the Board on this issue. He stated that there are two circumstances to be considered, the first being ongoing determinations with flow and form. He stated that Staff has submitted the first three contract review documents to the participant's CPO offices to allow them to see what the Board's internal working document would look like, how the Board Members would review the transaction, the cause for concern, the data collection that was involved as well as the ability to establish the policy recommendation. He stated that this allows the participants on both sides to see what the Board is doing and have an opportunity to comment. He then asked the audience if there were any thoughts they'd like to share with the Board on the process. Mike Smith stated that in his opinion, the process has been very good for both sides. He further stated that the request for documents went smoothly; it was very understandable as far as what the Board was requesting. He stated he and Mr. Brown have discussed that the Board will notify Agencies with any findings before publishing those findings.

Mr. Brown continued that the next step upon conclusion of a review would be staff signing off on it, the Board will provide the participant with an official version allowing them the opportunity to review the document prior to the Board's publication. Bob Baker representing Higher Education stated he feels the flow of information has gone very well; the communication has been efficient and Higher Education is very satisfied.

Mr. Brown moved on to the second point, which is to bring a level of awareness to the meeting participants and to the Board where the staff stands on reviews that are currently underway. He stated there are two subject matters coming forward with evidence provided in contract review one being the use of Sole Source contracts for professional and artistic services, which creates

additional responsibilities, and to make sure the requirements for both P&A under the law is satisfied. Mr. Brown stated the second issue is the use of renewal terms that far out value the initial term.

He stated that there is limited guidance in the Procurement Code as well as Administrative Rules on how to address those renewal circumstances. Chairman Healy stated he would like to talk about the fact that the State has contracts going out 10 years. He stated that he is concerned that it's not competitive. He stated that many things could happen to allow a vendor to keep a relationship for 10 years. Mr. Campbell stated that whenever a contract is up for renewal, internal procedures still require a Procurement Business Case to be prepared and a justification as to whether or not CMS believes the vendor has sent benchmarking data based on research, whether CMS believes this is in the best interest of the State to maintain the relationship. He further stated that sometimes long term contracts are necessary. Member Morales asked if long-term contracts have become more common in the last 10 years and if the State gets better pricing by taking a contract out for 10 years. Mr. Smith stated that he doesn't believe that to be the case, that he hasn't noticed any increase or decrease in those types of contracts.

Chairman Healy asked if when renewing these contracts, there a limit on each year in regard to the amount of the increase. He also stated that he feels some contracts should be put back out to bid in order to know the fair market value. Mr. Campbell replied he feels that re-bidding a contract can be expensive and laborious. He further stated that there are many factors to take into consideration when deciding whether to renew or re-bid a contract. Member Bass stated that there are options to renew and that an assessment would need to be done; that the vendor is in a better position with a renewal option. What he would like to see is the State conduct harder negotiations to get a fixed rate for more than a year. Mr. Campbell stated that based on 2002 data in the area of commodities and equipment, 90% of all contracts were renewed. Chairman Healy stated that his concern is that it has become too easy to renew a contract. Mr. Campbell replied that he agreed and that since 2002, CMS has hired additional staff and now has the resources to do market research to assist in deciding whether a contract should be renewed or sent out to bid. Chairman Healy asked if when a renewal is a market value renewal, how is it determined market value and Mr. Campbell replied that greater scrutiny should be given prior to renewing after 5 years.

Chairman Healy then asked Mr. Brown to discuss a sole source review for Professional and Artistic services. Mr. Brown stated that from the materials received by the PPB, it couldn't be determined why this contract would / should be a P&A Services contract nor further, how competitive selection was ruled infeasible. He further stated that the Agency is considering rescinding the award and bidding. Chairman Healy stated that this is informational as to why the Board is very carefully reviewing Sole Source contracts.

With no other questions or comments, the Board moved on the next item on the Agenda, which was Legislative Activities. Mr. Brown addressed the Board on this issue. It was noted that legislation was still being crafted through committee and much was to be expected before meaningful analysis would be provided.

Other business of the Board was next on the agenda and the Calendar of future meetings was discussed. Mr. Brown stated in regard to future meetings, the Board determined at the last meeting that it would be more appropriate to start meeting closer to a 30-day interval considering

the 30-day limitation applied to contract review. He further stated that one circumstance the Board is faced with is that if a formal hearing is conducted on a particular procurement issue or contract, the Board finds itself in a situation where regular Board activity may get confused with the subject matter discussed in a formal hearing. With that being said, Mr. Brown stated that the next Board meeting is to be held in Springfield in approximately 30days.

The next meeting was scheduled "to be announced" in the first or second week of April. Member Bedore moved, seconded by Member Morales to adjourn. Upon unanimous approval, the meeting of the Procurement Policy Board was adjourned at 12:10.

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – March 18, 2005 Meeting

Chairman Healy called the meeting to order at 10:00a.m.

Present via telecom: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The Board's single agenda item was the 30-day contract review. Executive Director Matt Brown addressed the Board. He briefly described the process by stating the Board has 30 days to review most state contracts from the time they are posted for award on the Procurement Bulletin. The purpose is to have time to make comments prior to contract execution.

Chairman Healy stated that it was his understanding that the Board cannot stop a contract but can only review and make a recommendation. Mr. Brown concurred and stated that covering the 30-day time limit is only going to be critical for the Board if the Board wishes to make a statement or recommendation that it would like to see implemented towards a specific contract prior to execution. Most of the Board's review, Mr. Brown stated that he was envisioning, would occur over a longer period of time demonstrated by several occurrences within contracts that would be looked at in a broad sense rather than on one specific contract. Mike Smith asked, for example, if the sole source issue is something that the Board is looking at in a broad sense and Mr. Brown answered affirmatively. Member Bass asked if this is similar to renewals to which Mr. Brown again answered affirmatively.

Chairman Healy asked for an explanation of "time sensitive" as certain contracts in the past may have been considered time sensitive without an explanation and that he would like an explanation when an Agency is stating a contract is time sensitive because it is a sole source contract. Mr. Brown replied to expand on that, that Chairman Healy and Mr. Brown have been discussing sole source transactions that are relying on justification based on lapsing Fiscal Year funding. Additionally, Mr. Brown wants to make sure that the time issue isn't abused and the Board isn't pressed to try to respond quickly to requests that really aren't that time sensitive.

Member Bedore asked if when speaking of "time sensitive", would that fall under emergency orders to which Chairman Healy responded that he would assume an emergency contract would be time sensitive, but a contract has come through the Board's office where the Agency said it was time sensitive because they had to go out and get bids on it within the fiscal year. He further stated that if there was only a month left in the Fiscal Year, he could understand the time sensitivity.

Mr. Campbell stated he was confused as to the Board's intentions and asked if the Board was trying to change the process of the contract review. Chairman Healy stated that the Board is trying to find

some guidelines on timeliness within the Board operations to not slow the process down and that the guidelines will probably change as we go forward with the Contract Review process.

Mr. Brown stated from the staff perspective, when something comes across and the justification for using Sole Source is based on a limited amount of time in which to contemplate bidding it puts the Board in a position of reviewing one of the most difficult to define justifications for Sole Source. It has much less to do with competition than it does with that agency's timetable and ability to act promptly. That, Mr. Brown stated, is an operational decision made by the Agency based on budget constraints and it limits competition. For some of these circumstances, it is easy to recognize a lot of competition exists. Chairman Healy stated that the key is to be able to say that something is time sensitive and we know that it really is time sensitive.

Member Triche-Colvin stated that it will be very hard to ascertain and while the Board wants to take that into consideration, more importantly, the overall objective of the process is to examine transactions appropriately. She further stated that even if a contract is time sensitive and the Board feels the need to review it, especially Sole Source contracts, she feels the Board needs to be particularly careful. Chairman Healy responded that he thinks there will be a tendency on his part to ask why a contract is time sensitive.

Member Bedore wanted to add that he had a concern with emergency contracts that come though for anywhere from 3 to 7 years. He feels an emergency contract should be for a shorter period of time.

Member Morales asked if Mr. Brown's recommendations had been shared with Paul Campbell of CMS and Mr. Brown responded negatively. Mr. Brown then addressed Mr. Campbell in explaining what Member Morales was referring to which was a memo to the Board members that included Mr. Brown's recommendation on how the Board would generally function in regard to reviews. He then went on the state the recommendation he put together is that the Board be able to commit it's opinions and recommendations in writing through a Certificate of Action. The certificate was established at the Board's inception, through rules, as the tool that the Board would use to demonstrate opinions in writing. It's a certificate that is undersigned by the Chairman, represents the Board's intent and in particular, comments directed by the Board. It would be something the Board could publish on the Procurement Bulletin informing anyone interested in knowing, what the Board's official action was. He continued stating that on time sensitive issues where the Board has to act within 30 days, this can be done through a conference call or videoconference. On other issues that are more prolonged, this can be handled during the course of a regular Board meeting. He stated that as long as the Board Members were comfortable with this process, he'd be happy to share it with CMS, Higher Ed and other CPOs and take all their in put into consideration. The Board members all agreed with Mr. Brown's recommendations. Member Triche-Colvin moved to move forward Mr. Brown's recommendations on the subject of review seconded by Member Bedore. The board passed the vote unanimously.

The Board then discussed the date for the next meeting to be held in Springfield the first full week of April with the date to be announced.

Member Bedore moved, seconded by Member Morales to adjourn. Upon unanimous approval, the meeting of the Procurement Policy Board was adjourned at 10:30.

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – April 11, 2005 Meeting

Chairman Healy called the meeting to order at 11:15 a.m.

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the March 4, 2005 meeting held in Springfield and the March 18, 2005 meeting that was held telephonically. The motion to approve the minutes for the March 4th meeting by Member Bedore was seconded by Member Morales. The motion to approve the minutes for the March 18th meeting by Member Morales was seconded by Member Bedore. Both were unanimously approved.

The first item discussed was Vendor Incentives. Mike Smith, SPO for CMS, addressed the Board. Mr. Smith stated that CMS now is asking that office supply vendors providing bids include a bid with price incentives and one without. He further stated that a bid with incentives would not be accepted if it didn't include the alternative bid as well. Mr. Smith also stated that CMS is in an evaluation process at this time. Chairman Healy asked if local municipalities would be affected to which Mr. Smith replied that the master contract for office supplies will be available to units of local government that are eligible to participate in the joint purchasing program.

Member Bedore made a motion for resolution, which was seconded by Member Triche-Colvin. The resolution stated that the Board does not support the use of vendor incentives; was not appropriate procurement method as State law prohibited it and that it negatively impacted small businesses and local governments that participated in joint purchasing. Also stated was that this appears to function as short term borrowing by the State. Then stated was that this activity should be prohibited. He concluded that this was a violation of the Code and against the spirit of the law.

Mr. Smith commented that CMS is looking very closely at the vendor incentives from a legal standpoint; that CMS is not taking this endeavor lightly. He further stated that he doesn't believe that CMS is doing anything with even the appearance of impropriety. CMS feels that this is a legitimate part of their "Total Cost of Ownership" procurement approach. Mr. Smith further stated that he would question the definition of vendor incentives. The resolution states that vendor incentives results in a cash payment to the State. He stated that a cash payment could imply a rebate after purchase.

Chairman Healy asked for Mr. Smith's opinion on the Illinois Procurement Code section 20-50 that states "may not require a monetary contribution" to which Mr. Smith replied that CMS's interpretation is that this does not impact what CMS is trying to do; that the Office Supply RFP is not in violation of that section of the Code. He further stated that he doesn't feel it was the intent of that section of the Code to prohibit what CMS is trying to do. Chairman Healy stated that he would question a contract that might put one of the Colleges or Agencies or any institution in violation of that Section of the Code. Mr. Smith stated that his understanding of that particular section of the Code is that it is applicable to a college or University that accepts a donation or honorarium from a contributor in consideration of a contract being awarded. He further stated that he doesn't believe the Code applies to what CMS is doing with the Office Supplies RFP.

Member Bedore moved to make an amendment to the resolution to state that "upfront" cash payments be the focus of the prohibition. That signing bonuses, cash advances, "up front" cash payments are at issue.

Member Bass stated that he feels it's hard for people to understand a response to an RFP that includes a vendor coming in with an instant cash rebate or upfront cash payment and how CMS factors that into the evaluation. He further stated that he supports the idea of buyer incentives based on increased volume and meeting transaction levels and he doesn't wish to put that at risk. Those are differing concepts.

Member Bedore asked how else could we get on record to show opposition. As Member Bedore sees it, this is detrimental to local governments and small to medium businesses. He further stated that he feels these "upfront" cash payments are simply short-term loans; that the State is getting upfront money and will pay a higher amount over the term of the contract. He further stated that he feels that the Board should be on record as trying to stop this practice, as being opposed to it.

Mr. Smith stated that CMS has an initiative to increase the small business set aside program and that CMS will take that into consideration in looking at every potential procurement. He further stated that it is not CMS's intention to hurt small businesses in any way; that CMS is going to do everything in its power to increase small business contracts. He continued stating that the Joint Purchasing Program has been very successful for local governments; they save millions of dollars.

Member Bass asked Mr. Smith if the State has ever done a contract like this before to which Mr. Smith stated that he does not know. Mr. Smith further stated that CMS is researching to find out whether or not CMS has done this in the past and where CMS stands from their "total cost of ownership" approach.

Member Bass stated that he feels there is a perception about this and that he was trying to get across to Mr. Campbell and Mr. Smith at the previous meeting when he asked the two of them to really delve into an assessment of whether or not it was worth it to include that "upfront" incentive activity as CMS proceeds with the RFP. Mr. Smith replied that CMS is looking at both options with and without incentives. Mr. Smith further stated that there was a perception that vendors would build the signing bonus or incentive into their prices. By asking for both, CMS

will be able to show whether or not that is the case in CMS's evaluation and in the end, CMS will be able to see what is truly the best value to the State.

Member Bedore asked Mr. Smith how he could say that this will be beneficial to the State and to local government. He continued by stating that no company is going to give millions of dollars without trying to recoup it throughout the term of the contract and that is what Member Bedore is opposed to.

Chairman Healy asked for a roll call vote on Member Bedore's resolution. Member Bass voted yes, as did Members Morales, Triche-Colvin and Bedore. The Chairman abstained. Chairman Healy then stated, even with the resolution, he would like CMS to give a report to the Board on how it would benefit and how it would not negatively affect municipalities.

Member Bass asked Mr. Smith if this resolution changes what CMS wanted to do on the Office Supplies contract to which Mr. Smith replied that he would have to have CMS legal advisor look at the resolution. He further stated that legally, CMS still feels it is going to move forward with this particular evaluation.

Member Triche-Colvin stated that this is a difficult request of CMS. She asked what criteria can be utilized to clarify the boundaries of this practice and what is reasonable in this approach to rebates. Mr. Smith answered that CMS will come back with a report at a future meeting.

The next item on the Agenda was Proposed Contract Review. Executive Director Matt Brown gave an overview. The first subject dealt with the use of renewals within contracts to continue acquisition of supplies and services. Bob Baker of Higher Education was in attendance and he characterized an approach that Higher Education advises individual universities to comply with. He noted that a financial or service benefit must exist, contractual provisions that control pricing limits for the option period must exist, and management oversight of the evaluation process for such renewals must exist in order to effectively utilize a renewal process. He provided a written statement expanding on those points.

Chairman Healy asked if contract renewals are posted to the Bulletin. Mr. Baker responded that they were not. After some staff discussion it was recognized that some are posted, some are not. Also noted was that there are no requirements to do so, the four CPO's each handle renewals differently. Member Bedore made a motion that any renewals are to be posted. Member Morales seconded the motion. He asked why renewals aren't posted to which Mr. Baker stated that some Universities might think that since the original contract was posted, there is no need to post the renewal. All the Members of the Board were in favor of the motion that renewals are posted to the Bulletin and gave unanimous approval to the motion.

Mr. Smith asked if the 7-day protest period would be opened on renewal postings to which Executive Director Brown answered negatively. It was his belief that the protest period was applicable to the initial competitive selection not the contractual renewal of the initial procurement.

Next under contract review was Sole Source transactions. Mr. Brown stated that from January 1, 2005 through March 28, 2005 there were 263 Sole Source transactions. He stated that the emphasis on Sole Source review is to be certain that adequate justifications are provided.

Member Bedore suggested that Agencies send the procurement business case with all sole source transactions. Staff stated that the PBC is unique to CMS that the other three CPO's use different tools. Member Bedore suggested that a format be developed and we could look at other states for examples. Chairman Healy suggested that Mr. Brown and the Agencies work together on Sole Source Transactions. Member Triche-Colvin emphasized that in the end the information should yield sufficient justification about the Sole Source decision.

The next issue before the Board was Emergency Transactions. Mr. Brown stated that the Code does not limit the term of Emergency contracts. He noted that under review an emergency contract was found with a 5-year term associated with it. He stated the issue was that during an emergency, the State might be limited to a single vendor who sees the State's exposure as an opportunity to demand onerous terms. Mr. Smith responded that this could happen but he encouraged the Board to leave the door open far enough during its consideration so that the State's need could still be satisfied.

The Board moved on the next item on the Agenda, which was Administrative Rules. Mr. Brown reported that there were two rule changes that had no policy changes. They were compliance changes to update small business set aside limits to statutory levels. There was no staff recommendation or Board action. Member Bedore inquired about legislation and the Reverse Auction Bill. Staff responded that the second half of the General Assembly was preparing to start, most bills having passed to the opposite house. Bill updates would come regularly to the Board from here on. Staff stated that the reverse auction bill was alive in both houses with a positive outlook at this time.

Other business of the Board was next on the agenda and the Calendar of future meetings was discussed. It was decided that the next meeting of the Board would be held in Chicago in approximately one month. Member Bedore moved, seconded by Member Morales to adjourn. Upon unanimous approval, the meeting of the Procurement Policy Board was adjourned at 12:10.

PPB STATE OF ILLINOIS **PROCUREMENT POLICY BOARD**

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – May 10, 2005 Meeting

Chairman Healy called the meeting to order at 11:00 a.m.

Present: Terry Healy
Mike Bass
Carmen Triche-Colvin
Absent: Ed Bedore
Rick Morales

The Board started the meeting by discussing organizational issues and the approval of the minutes for the April 11, 2005 meeting held in Springfield. The motion to approve the minutes by Member Triche-Colvin was seconded by Member Bass and was unanimously approved.

The first item discussed was Vendor Incentives. Mike Smith, SPO for CMS, addressed the Board. Mr. Smith stated in regard to the office supply RFP, four out of five vendors are through the technical stage and that CMS is evaluating the pricing at this time. Using the Total Cost of Ownership (TCO) approach with and without incentives, Mr. Smith anticipates the contract being awarded around the end of May. He further stated that CMS is awaiting the opinion of the Attorney General on the use of incentives specifically to this office supply RFP. CMS wants to ensure that they are compliant with the Code. CMS believes incentives should be a part of the IFB, RFP – TCO approach. Mr. Smith further stated that CMS would continue to evaluate the impact on small businesses and that vendor incentives are primarily used when large businesses are anticipated vendors.

Chairman Healy asked if the vendors are aware of rebates with bidding and Mr. Smith answered affirmatively. Chairman Healy then asked if the rebates are through cost cuts or a check back to the State. Mr. Smith replied that the rebate would come as a check back to the State and that the money shall be used to finance related programs. Mr. Smith further stated that CMS could show with the office supplies RFP that vendors are not baking rebates into the prices; that rebates are not affecting the pricing structure.

Chairman Healy then asked if the office supply RFP states that the vendor must send any manufacturers rebate to the State to which Mr. Smith replied that CMS left it open and he further stated that if a vendor is going to offer incentives, the vendor should give pricing with and without incentives. Chairman Healy replied that the Board maintains the same position and wants to be kept informed of rebates or any other incentives being used.

Member Bass asked for clarification that CMS is asking the Attorney General for an opinion on the language of the RFP and whether CMS will wait for a reply from the AG. Mr. Smith replied that CMS would like an opinion first but may not be able to wait. Member Bass asked if the incentive includes additional discounts for volume to which Mr. Smith answered that he believes it is built into the RFP. Member Bass then asked about the number of core items and Mr. Smith answered around 150 – 200. Member Bass asked about the use of multiple vendors and Mr. Smith replied that only one will be selected.

Chairman Healy asked if CMS would use the same language in future RFPs. Mr. Smith replied that he wasn't sure; that CMS realized there are other concerns and each transaction is unique.

Member Triche-Colvin asked when CMS plans to award the contract. Mr. Smith replied at the end of May with the contract being in place for July 1.

Chairman Healy asked if CMS would inform the Board of any RFPs when they are published to which Mr. Smith replied affirmatively.

Chairman Healy then asked if there was any information that CMS could share on the audit. Mr. Smith replied that CMS provided a copy of Director Rumman's comments. He further stated that there is a Legislative Audit Commission (LAC) hearing in a couple of weeks and that CMS would be posting revised answers to the Auditor General at that time. Mr. Smith continued by stating that CMS has drafted 5 CPO notices related to the Auditor's findings; Best & Final, Contract File, Vendor assistance, posting other than low bidder and Evaluation criteria. He further stated that a summary of all savings was given to Executive Director Matt Brown for distribution prior to the meeting.

Chairman Healy stated that the Board will want to ask questions regarding savings documents at the next meeting. Mr. Smith stated that he understood that information would be sought but the current hearings with the General Assembly took precedence.

Member Bass stated that in preparation for the June meeting that the Board needs to see specific methodology for CMS's validation of the numbers in the categories listed. He further stated that some of the large numbers in here are normal operational issues. Mr. Smith asked if Member Bass was talking specifically about the Procurement Initiative to which Member Bass replied affirmatively. He further stated that the Board has seen comments when asserting a value, then later that value goes from 100's of millions down to 10's of millions and that's a pretty wide variance. He stated that CMS needs to convince him of the validation. Mr. Smith stated that in the Procurement Initiative there are about 50 categories that went through validation. The numbers have changed over time because circumstances change. He stated that CMS has validation on file and support documentation and that CMS can answer specific questions on specific categories. He further stated that if Mr. Brown wants to come over to his office and make copies, he is welcome to do so.

Member Bass went on to say that he is concerned that Agencies are centrally charged a value for purported savings from initiatives that came from lines not related. He further stated that to him, that undermines the equation that something is a procurement savings if it's coming out of a personal services line. He continued by stating that what troubles him personally about the audit is that in the end, it puts a pall over the actual issue of procurement reengineering. Mr. Smith stated that he agrees and that from the billing process and accounting standpoint, the bills were simply sent and paid.

Chairman Healy stated that the Board expects a more detailed report at the next meeting. Mr. Smith asked if the Board had any specific concerns. Chairman Healy replied the audit and property management are concerning to the Board. Mr. Smith stated that there was no one from Property Management available to come the meeting. He further stated that the IPAM contract was cancelled and there hasn't been any planning yet on how to proceed. He stated that the remaining 40 Agencies will still be consolidated on July 1 under Executive Order.

Mr. Smith stated that he asked facilities for talking points on accomplishments made over the last year or so, which are that by July 1st, will consolidate all remaining 40 Agencies, 10-million square feet of State owned property has been assessed, space utilization reports information gained from assessment, lease document has been revised and placed into service, due diligence requirement has been inserted bringing improvement to the

process, A space request document has been revised to reflect facilities management's reworked space standards with projected savings of up to 17% over the previous document, sold approximately 70 acres of Elgin Mental Health facility to the City of Elgin, and implemented a call center strategy for facilities related work. Chairman Healy stated the Board would like more information at the next meeting.

Member Triche-Colvin stated that she would like it noted in the minutes that many issues previously discussed regarding facilities management and IPAM among others, were discussed by the Board. She stated that some issues were handled, while others were ignored. She further stated that the Board is trying to establish the functionality of the Board as an upfront part of the process. She stated that she would like to see CMS take the Board's comments not as critical but as constructive; that the Board is trying to look at it from an outside perspective back to the inception of the Board and why it was created. Mr. Smith stated that he agrees and although he can't speak for facilities management or the audit specifically, on procurement, he has really tried to increase communications with the Board staff. Chairman Healy stated that he feels the communication has been better, but when the Board passed the resolution regarding vendor incentives, CMS seemed to pass it off as not something it is concerned with. Mr. Smith stated that CMS is concerned with that but that there are a lot of other issues as well. Chairman Healy stated that the problem is that CMS went ahead with it without notifying the Board before it's implementation.

Member Bass asked Mr. Smith for the value of 70 acres in Elgin to be available for the Board's June meeting. He also asked about the master rental car agreement to which Mr. Smith stated that it has not progressed, it is on hold.

With no other questions of Mr. Smith, the Board moved on the Contract Reviews. Director Brown addressed the Board. He stated that staff has been able to collect data over the 4 months to come up with some numbers and percentages to represent types of transactions, relevant categories of transactions, data on the procurement review, the sort of reviews staff has undertaken to accumulate data on the sources of transactions as well as a breakdown of Higher Education versus State Agencies. He stated that he welcomes any feedback from the Board regarding satisfaction with the data. Mr. Brown went on to say that this is a report he plans to make available to all State Agencies and Universities that are involved.

As a matter of categories, Mr. Brown stated that Staff has broken down the categories that are being tracked as Commodities, Construction, Entertainment, Equipment, Facilities, General Services, Health and Medical Services, Highway Construction, Information Technology, Pharmaceuticals, and Telecom being the major categories. Chairman Healy stated that he found the report useful although as time goes on, the Board may ask for adjustments. He further stated that he noticed that Sole Source contracts came to be 27% of the total contracts and 27% of those are general service contracts. Mr. Brown stated that CMS and Higher Education wish to make comments on Board's approach to Contract Review and a proposed Sole Source resolution. He also recognized that representatives from DOT and CDB were present and welcomed any comments from them also.

Mr. Bob Baker of Higher Education addressed the Board. He stated that he feels the resolution as drafted requires more detailed documentation of both Sole Source award posting as well as business cases in the transaction files. Mr. Baker stated that there is an increased burden on the administrative staff at all 13 State Universities and resulting delay in awards due to the 30-day review and the changes to how awards are posted. Changes in the way H.E. posts awards, options for renewals, extra postings for renewals, and the latest recommendation for additional information on sole source contracts will lead to delays. Mr. Baker stated that although H.E. is not unwilling to comply with the requests, they want to make sure the Board is aware that each additional request made brings with it an added workload to the buying staff. Mr. Baker stated that Higher Education would like to work with the Board's staff on the development of sole source posting template and the

business case template, which is recommended in the resolution. He further stated that Higher Education feels there is a need for some refinement of some of the information elements which H.E. feels may not be appropriate for certain types of Sole Source transaction postings. He concluded by stating that Higher Ed doesn't challenge the resolution but wants to work with the Board Staff.

Chairman Healy stated that Sole Source contracts are a major concern but he doesn't want to add to the burden. He would like to see a process worked out that would be beneficial to both sides. He further stated that with Member Bedore and Member Morales' absence, he'd like to leave the resolution on the table until the June meeting giving the Board time to work on this particular issue.

Member Triche-Colvin stated that relating to the Sole Source resolution, she would like communications with the Board's staff to take place before the next meeting so that the Board can address any issues at the next meeting. She further stated that the Board does intend to move forward with the resolution. Mr. Baker stated that in speaking with Mr. Brown, Mr. Brown indicated a willingness to participate in a teleconference with the 13 Universities before the next meeting.

Member Bass stated that the Board will be passing the resolution at next meeting. Chairman Healy asked if CMS had any comments to which Mr. Smith answered that CMS already does most of what is stated in the resolution in their Business Case Process and Posting Process. He also stated that CMS has been exploring a new template of its own for Sole Source that will go right in line with this resolution. He concluded by stating that CMS will require some time to capture the additional data on the posting. Chairman Healy asked if CMS would have this available by the next meeting. Mr. Smith stated that programmers take a lot of time but he will have a plan by the next meeting. Chairman Healy stated that the resolution will be put forward at the next meeting.

Next, John Werthwein of IDOT asked if his agency will be required to go into elaborate explanation on forced Sole Source transactions in which IDOT must use a particular electric company to move a line for example. He stated that IDOT posts an explanation as to why it is a sole source, but they don't go into all the details mentioned in the resolution. Chairman Healy stated that the Board will take that into consideration. Mr. Werthwein also asked about contract change orders published after the fact and Mr. Brown replied that an answer of "Not Applicable" is an appropriate answer when boilerplate questions are inapplicable.

Next, Mr. Brown gave a synopsis on Legislation. He stated that procurement related bills are almost all suspended due to surpassing deadlines. Procurement bills have been taken up in more omnibus bills at the end of session in the past few years. He further stated that the Board has a Senate bill on hold and the Board's House bill is sitting in the Senate with regard to reverse auctions and is poised for passage.

In regard to other business of the Board, Chairman Healy stated that for the next meeting a resolution that will be put forward on vendors that will be assisting or consulting on bids. Mr. Werthwein commented that IDOT occasionally consults with groups of vendors before issuing a RFP. He stated that they solicit from multiple vendors for input to write specifications, but that the vendor does not help in writing the specs. He wants to be ensured that the resolution won't interfere with these times of meetings with vendors. Chairman Healy stated that the Board will take it into consideration under the exceptions.

Mr. Werthwein stated that another issue he would like to address is having a vendor doing an emergency until a bid is let. Chairman Healy stated that the Board will put that in the resolution.

Member Triche-Colvin made the motion to adjourn which was seconded by Member Bass.



STATE OF ILLINOIS PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – June 20, 2005 Meeting

Chairman Healy called the meeting to order at 11:05 a.m.

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the May 10, 2005 meeting held in Chicago. The motion to approve the minutes by Member Triche-Colvin was seconded by Member Bedore and was unanimously approved.

The first item discussed was lease renewals. Mr. Bob Baker and Mr. Dennis McConaha were present on behalf of Higher Education. The first lease summarized by Mr. Baker was for 111 Green Street in Champaign. The Board had no questions on this lease. The next lease on the Agenda was for 1010 Jorie Boulevard in Oak Brook. Member Morales asked for the reason for the square footage increase to which Mr. McConaha replied it is due to consolidation. With no other questions, the Board moved to the final lease, which was for 200 South Wacker in Chicago, also known as the Illini Center. Member Bedore stated that it was an elaborate building and asked if such a facility is needed to which Mr. McConaha replied that the high visibility bodes well with it being near the train station and the desire to be downtown, the University would like to renew the lease. Member Bedore then asked if there were negotiations or if the lease was just renewed. Mr. McConaha replied that the university was in negotiations for a year and a half. Member Bedore then asked if the standards set by IPAM were followed regarding square footage per employee. Mr. McConaha replied that the space is not totally an office building and that the Lobby and Mezzanine meet a number of programmatic needs. He further stated that they have consolidated 6 or 7 leases that were scattered throughout Chicago into the Illini Center.

Member Morales then asked about a sublease with Bank One who are said to be vacating. Mr. McConaha stated that the landlord is obligated to work with the University on first right of refusal and that UIUC is trying to have co-terminous leases throughout the building. Member Bedore then asked for a list of landlords to which Mr. McConaha stated that there are a number of different investors and that his current understanding is that the owner is Morgan Stanley.

With no other questions, the Board moved on to the vote on the leases. Member Bass recused himself from the vote. On the 111 Green Street lease in Champaign, Member Bedore made the motion and Member Morales seconded it. The motion to approve the lease at 1010 Jorie Boulevard was made by Member Morales and seconded by Member Bedore. Both passed unanimously. And the motion to approve the final lease at 200 Wacker was made by Member Triche-Colvin and seconded by Member Morales. Member Bedore was opposed to this lease. A majority of the Board declared no objection certified to the University.

Next on the Agenda was IDOT regarding Administrative Rules. Mr. John Werthwein was present on behalf of IDOT. Chairman Healy asked Mr. Werthwein for a summary of the need for an emergency amendment. Mr. Werthwein stated that IDOT wants to put more emphasis on doing business with small and minority owned businesses and to implement a set aside as quickly as possible. Member Bedore asked if the emergency procedure subjected contracts to bidding to which Mr. Werthwein answered affirmatively. Member Bedore then asked if this is already in effect. Procurement Policy Board Executive Director Matt Brown stated that emergency rules are available for immediate implementation by any State Agency through JCAR on a temporary basis. Chairman Healy asked if there was no current policy or procedure for minority contractors to bid on highway work to which Mr. Werthwein stated there are goals, but not a dedicated set aside. Chairman Healy then asked if those goals were being met. Mr. Werthwein replied affirmatively. Then Chairman Healy asked if this has increased the participation at all and Mr. Werthwein replied that the first contracts were let the previous Friday. Member Bass then asked if this is different from MAFBE to which Mr. Werthwein stated it is modeled off of CMS's MAFBE program. Member Bass then asked if this was an issue with lack of minority participation and Mr. Werthwein stated that this is to broaden the outreach; to meet goal of BEP.

Regarding SBSA, Mike Smith with CMS stated that SBSA would naturally enhance the business enterprise program for minorities due to joint qualification. He further stated that only qualified small businesses would be qualified to bid. Member Bedore asked if this would go through the normal bid process to which Mr. Werthwein replied that the business must be a small business and must submit an equipment list. Chairman Healy asked if the business must own the equipment and Mr. Werthwein stated to pre-qualify, yes, the business must own the equipment.

With no further questions, the Board moved on to the next Agenda item, which was Administrative Rules for the State Board of Education. Melissa Oller and John Furr were present on behalf of SBE. Mr. Furr summarized the need for the change in Administrative Rules and the desire to utilize CMS as SPO for SBE.

Chairman Healy asked why the change is wanted now to which Mr. Furr replied a need to streamline SBE's administrative rules within SBE's procurement operation as well. Director Brown indicated that discussions with SBE and CMS were occurring to establish what the jurisdiction should be. He stated that the discussions included aspects of delegation and who would be charged with the ultimate authority for procurement transactions – SBE or CMS.

Chairman Healy then asked if SBE still procured for the local school districts to which Mr. Furr replied negatively. He stated that the school code recently mandated to create the School Purchasing Program for SBE to certify contracts on their behalf. Chairman Healy asked if all SBE procurements are currently done through CMS and Mr. Furr replied that there is a delegation arrangement between CMS and SBE. Member Bedore proposed the Board table this until the next Board meeting. Mr. Furr asked if the Board had any concern to which Chairman Healy expressed concern over who has the final authority and Member Bass stated that SBE should be in or out when it comes to being part of CMS control and Member Bedore agreed. Member Bass then asked if CMS does this with other Agencies to which Mr. Smith replied there are a number of issues still to be addressed in this unique request. Member Bedore then stated that he would like to get an update at the Board's next meeting.

The next Agenda item was an update from CMS. Mr. Mike Smith was in attendance on behalf of CMS Procurement. Mr. Smith stated that CMS has completed the evaluation of non-incentive RFPs for office supplies and they are trying to address issues with incentives. He further stated that in the best and final rounds, CMS historically asks the vendors if they can lower the prices. The vendor may come back and say they have given their lowest price and then offer an incentive in the form of an 'after-the-fact' rebate. He stated that the reason the vendor cannot lower the price is because the incentive is paid out of a different fund. This has the

possibility to save the State hundreds of thousands of dollars. Mr. Smith stated that CMS, while looking at the RFP's, is also looking at the Board's concern about local governments paying more and not getting their share of the 'after-the-fact' rebate. CMS is looking at the possibility of providing rebates to local governments.

Mr. Smith stated another issue CMS is looking at is the accounting issue of where the rebate goes. He stated that any type of rebate is deposited in the General Revenue Fund. Mr. Smith further stated that CMS does not yet have an opinion from the Attorney General and reiterated that CMS is not looking for up-front money. He further stated that the contract has a minority participation goal of 19%. It was not part of the evaluation process but CMS asked the vendors to have a plan on meeting a minority participation goal of 19%. Member Bass asked if the Board could see the plan to which Mr. Smith stated that CMS has the plan and that after the contract is awarded, the Board can see it.

Next the Board discussed temporary staffing. Again, Mr. Smith was in attendance on behalf of CMS. He explained that the state is divided into four regions, Cook County, Sangamon County and North and South. The North and South contracts were not renewed by the vendor due to low volume. Sangamon County region was renewed with Manpower while Cook County was re-bid due to poor performance. He further stated that the State found that it was in its best interest because of the amount of vendors available, to put out the Cook County contract as a Small Business Set Aside. The contract has been awarded to a small business that is also a minority business. He further stated that CMS has addressed the minimum wage issue on all its temporary services contracts by including an economic adjustment clause allowing for pricing adjustments during the course of the contract should any unforeseen circumstances effect said vendor. Chairman Healy asked if the State mandates this be done before a contract is let to which Mr. Smith replied that initially it was a timing issue and that CMS addressed that to keep it from happening again. Member Bedore asked if this change was an amendment or if it was done administratively to which Mr. Smith answered that it was specifically an amendment of the Sangamon County temporary services contract and it is part of the new contract with the new vendor in Cook County. Member Bedore asked then if this would come before the Board and Chairman Healy stated that if it is a mandate from the Legislature that was prior to the contract being let, then the contract would come before the Board to which Mr. Smith replied affirmatively.

Member Bedore expressed frustration. He stated that Deputy Director Paul Campbell was on record for committing to re-bid the contract. He stated that he didn't know now how CMS could justify a renewal under these conditions.

Chairman Healy asked why Sangamon County was not re-bid when Cook County was and Mr. Smith replied that a renewal in Cook County was not justified and that Manpower agreed to renew in Sangamon County at the same rates and conditions. Member Bedore stated that this was in light of receiving an amendment to compensate for additional unemployment insurance costs and that amount could remove them as low bidder.

Member Morales asked if there is ever a time when it is too late to re-bid a contract to which Mr. Smith replied affirmatively that the delivery of services could be impacted at the time bidding was an option. Chairman Healy asked if the decision to renew the Manpower contract was made in the last 30 days and Mr. Smith replied it was more than 30 days ago to which Chairman Healy stated that it should have been brought up at the last Board meeting before renewal.

Member Bedore stated that in previous meetings, CMS has stated they are happy with the open communication they have with the Board Staff yet this is an example of no communication. Mr. Smith replied that he could provide a summary for the Board for review. Chairman Healy stated that he would like to see a summary but at this point, after the fact, it is too late. Mr. Smith replied that the contract does provide termination provisions

and Chairman Healy said that the contract wasn't terminated in January and he doubts it will be done now. Mr. Smith stated he would provide staff with a summary by the end of the week.

Finally, Mr. Smith stated that the changes to the bulletin were on track for Fall 05 implementation. This would include posting of renewals and sole source enhancements.

The next item on the Agenda was CMS Property Management. Mr. Bruce Washington was in attendance to address the Board. Mr. Washington began by answering Chairman Healy's question of the value of the 70 acres in Elgin that the State sold, which was \$40 million. Mr. Washington then went on to update the Board on the cancelled IPAM contract. He stated that the mission has not changed and that the State will be able to use all the data IPAM created. The breakdown of incomplete project factors as a result of IPAM's cancellation follows: 40 million square feet needs to be assessed; the repository for data and integrated systems are unfinished; the property management internal system is unfinished; mapping and call centers also remain unfinished. Mr. Washington stated that all of these areas could be completed. He said that staffing is under reorganization with participation from the unions. He then mentioned new facility service agreements and training initiatives that will be employed for the operation of facilities. Also Energy Management initiatives are underway.

Chairman Healy stated that this system was absent prior to IPAM and is absent now, how can CMS proceed? Mr. Washington stated that IPAM gave enough structure to the program that CMS now only needs to staff correctly and move forward to completion, that the organizational design and knowledge base are established.

Chairman Healy asked if any consideration has been given to bringing on another company and asked if the State couldn't do this alone before, how can the State do it now to which Mr. Washington stated by using IPAM's groundwork. He further stated that the facility condition assessment for 40 million square feet might require an outside contractor for help. Member Bass asked how much the IPAM contract was worth and Mr. Washington replied \$24.9 million with 10 million square feet left to evaluate. Mr. Washington also stated that CMS is looking to privatize some facilities managers and that 10 million square feet would represent a model for the facilities managers. Member Bass then asked if the 10 million square feet was the most lucrative in terms of savings to which Mr. Washington stated that it was meant to be a cross of the different types. Member Bass then asked if IPAM provided an integrated database to which Mr. Washington replied that IPAM's role was to research and assess what type of system the State needed. Member Bass then asked if an electronic work order system is in place and Mr. Washington said there are systems in place but they do not talk to each other. Member Bass then asked about preventative maintenance integrated and Mr. Washington stated that CMS has this but other Agencies do not; that it needs to be standardized. Member Bass then asked if this is all on paper and Mr. Washington replied if it's been done, it's on paper. Member Bedore asked how long IPAM was working for the State to which Mr. Washington replied since January 5, 2004. Member Bedore then asked what the expenditure to date was and Mr. Washington stated he didn't know but that CMS's CFO would know. Chairman Healy asked how soon the Board could get that information and Mr. Washington replied within the week.

Member Morales asked about the goal expectations to which Mr. Washington replied the goals are the same. Member Morales then asked if the State was still going to achieve those savings to which Mr. Washington replied that it is still being assessed.

Chairman Healy then asked how much did IPAM do with the training component and Mr. Washington replied that CMS is in the middle of putting structure together to see what kind of training would be required and they are no where near complete. Member Bedore then asked for a ballpark of when leases will be cleaned up and when or if CMS will hire anyone to which Mr. Washington replied that they are implementing the lease

strategies and have 23 RFI's on the street. He further stated he would come before the Board again after the 23 leases are negotiated. Chairman Healy stated that he would like additional reporting at the next meeting on those goals that were set prior to IPAM's cancellation.

The next item on the agenda was Sole Source Resolution. The Procurement Policy Board, at the previous meeting, declared its intent to establish by resolution accounting for Sole Source transactions. Since that meeting, PPB staff and Agency staff found concurrence on the resolution proposed by the Board. Higher Education, CMS, the Department of Transportation and CDB all supported the resolution. This resolution is official record as part of these minutes.

Member Triche-Colvin moved to pass the resolution and Member Morales seconded the motion. It passed unanimously. Member Bass then commented that the resolution is fine but since compliance is voluntary, how can the Board engage proposing rules to CPOs? He feels there should be more left behind it. He asked staff to examine this issue for a future agenda.

Next to address the Board were Jan Kimmerling and Jan Koster with the Department of Commerce and Economic Development regarding a contract with J. Walter Thompson. Chairman Healy asked for a review and for information on how the contract came about. Ms. Koster stated the nine vendors responded to the original advertising RFP and she explained that the Illinois Hotel/Motel tax funds tourism and this tourism media contract. Chairman Healy asked what the budget came down to after budget cuts. Ms. Koster stated they lost \$6 million that fiscal year. Member Bass asked if DCEO were required to spend a certain amount to which Ms. Koster replied affirmatively. Member Bedore asked what provisions are in the contract to avoid problems like at the Illinois Lottery. Ms. Koster replied that JWT checks to make sure ads are run and that they are run correctly. Member Bass then asked what DCEO uses to benchmark ROI to which Ms. Koster stated the expectations are to make \$13 for every \$1 spent. Member Bass then asked who was the prior advertising agency to which Ms. Koster stated BBDO. Member Bass asked if there were subcontracts to which Ms. Koster replied affirmatively. Member Bass then asked about minorities to which Ms. Koster stated they have a goal of 19%. Chairman Healy stated that this was an acceptable explanation. He would not motion for a contract review.

Member Bass stated that he'd like to consider a 3/5 vote to review the Manpower contract and asked that it be an Agenda item.

Next, Mr. Brown went over Legislation. He stated that reverse auction had again stalled but was likely to be reconsidered during veto session with only one vote required to be sent to the Governor. He also noted that Construction Management had been authorized by the Legislature and to expect rules to develop that establish its practice. No questions were asked.

Member Morales made the motion to adjourn to Executive Session for a personnel matter. Member Bedore seconded the motion. It was unanimously approved.

The open meeting was closed at 1:08 p.m.

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – August 2, 2005 Meeting

Present: Terry Healy
Mike Bass
Rick Morales
Via telephone: Ed Bedore
Absent: Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the June 20, 2005 meeting held in Springfield. The motion to approve the minutes by Member Morales was seconded by Member Bedore and was unanimously approved.

Mike Smith with CMS began by summarizing the activities of the Bureau of Strategic Sourcing and Procurement. He stated that CMS was in the early stages of implementing a spend management initiative. He stated that there was a great amount of data collection necessary for the state to truly understand its purchasing capacity and to best leverage its assets and purchasing power. He noted that spend management will not only be used to collect and record data but identify the States position prior to going out for future procurement. Second, he stated was the additional transparency this level of record keeping will add to the procurement process.

He provided additional comment regarding the enhancements to the Procurement Bulletin regarding the posting of contract renewals and listing subcontractors as well as new sole source requirements developed by the Board. It is expected that the enhancements will roll out 10/1/2005. He said there would be a change in the template to capture data and ease use.

Small business contracts continue to be noted. The goal is to further identify contracts that promote growth in this area and continue to set them aside.

Mr. Smith next noted that a presentation from Team Services was next and that this was a revenue generation situation that CMS would like to present to the Board. Team Services provided a presentation that is made part of this record.

Chairman Healy asked about the 1 year + in development stating that must have been an exhaustive amount of development for this. Team Services said it was deemed necessary for the 10-year commitment that the State would be seeking.

David Cipullo stated that similar development work in with the beverage relationship with the City of Houston, TX exposed many inefficiencies; the outcome of the RFP there was an increase in revenue by 25%.

Chairman Healy asked how increases are realized. Team stated that one of the often-overlooked aspects are up front fees with franchise rights. Additionally, there are many different case studies to refer to along with due diligence that account for a lot of the findings.

Member Bass asked if the companies own the vending machine along with supplying the product. He stated that the State currently has a lot of old machines. Mr. Cipullo responded that yes, new machines are a component of an agreement like this. He further stated that beverage companies wanted universities and expects to place machines.

Member Morales asked if in other agreements the size of the bidding vendor was limited due to aspects of statewide distribution.

Member Bass asked if it is true of the market to say that Pepsi, Coke and Cadbury are the 3 dominant vendors? Fred Fried replied affirmatively.

Chairman Healy asked if Illinois municipalities had been included. Mr. Cipullo replied no, that projections for sales in that type of environment are not solid and make it difficult to get accurate bids.

Mr. Cipullo stated that one of the items discussed/polled was whether an official sponsorship would be valuable in this type of relationship. The companies all agreed that this would not increase value to a relationship with the State. Mr. Fried said that it would be viewed differently than marketing for the Olympics where an official beverage would have a definable value. As a result, it is excluded from this proposal.

Member Morales asked about kids and influence towards healthy eating. Mr. Fried stated that the contract would require healthy alternatives. Mr. Cipullo stated that they would be replying during the RFP process on what these offerings would consist of.

Member Morales asked of pouring rights – does it include coffee, cold coffee & tea, water & juice? What about snacks? Team replied no to all. Member Bedore asked if it includes alcohol at State fairs. Mr. Fried replied that it does not.

Member Bedore asked if the vendors help develop the proposal. Mr. Fried replied that responses from polling were used to develop goals. Chairman Healy asked how many were sent. Nancy Wuttke stated that it was posted to the Bulletin as 7 responses received.

Chairman Healy asked if they anticipated expanding the offer to additional vendors. Team Services responded that this was basically the pool that will be able to service the account.

Member Bass stated that he saw pouring rights as something a little different than a concession as it is a resale event. Team stated that there is a price point to the State for a concession like this.

Member Bass then asked about pay to play or upfront incentives; he noted that this Board has been less than receptive when it comes to this issue. Does part of RFP anticipate this?

Mr. Smith and Mr. Fried referred to slide 15 in statement. Mike Smith stated that CMS's opinion is that this is different. It is not like a vendor paying an incentive to receive preference toward

being the awarded contractor. This is a revenue process and the goal is to establish the highest revenue from the service. He also stated that CMS retained outside Counsel on the matter and is advised that they can proceed.

Member Bass asked if CMS has received the AG opinion they requested on the subject of vendor incentives. Mr. Smith replied that an opinion has not been rendered but he believes the context is different and it would not be applicable to this RFP.

Member Bass stated that it seems we are purchasing when it comes to pouring. Mr. Fried stated that it differs in the sense that the State would act as its own concessionaire.

Member Bass asked specifically if they had made sure that blind vendors aren't pushed out by this. Mr. Fried stated that they can't be diminished or the program will not be successful. It is readily recognized that these vendors will maintain their participation in State vending.

Mike Smith stated that CMS will lead acquisition and Revenue will manage the program.

Member Bass asked if rights fees and marketing money would be kept separate. Team responded affirmatively. Member Bass then asked if you would ever build in a competitive environment within these boundaries. Mr. Fried responded no, that time tables around 10 years of exclusivity is best for vendors to handle projections and maximize their offer. Mike Bass asked if the bid required machine replacement. Mr. Cipullo stated that yes a portion is determined during roll out.

Member Bedore stated that the State should require new machines and to try to get alternate advertising for the front of the machines; something that would benefit the State's causes. Mr. Fried said that is something that can develop through this process.

Member Bedore said the possibility is always open for pay to play practices and to exercise caution with this area.

Member Morales referenced slide 6 – no standard set of rules; will there be? Mr. Fried and Mr. Cipullo stated that there will be rules and the Universities currently have rules that can be modeled from.

Mike Smith asked if any Board member saw a reason this cannot move forward to the RFP stage. Member Bedore stated that there would be an impact to small businesses that currently service machines and for CMS to realize this will occur.

Chairman Healy stated in closing that it is important to take care of the relationship currently in place for blind vendors and thanked CMS for bringing this to the Board in advance of the letting the RFP. All Board members concurred.

Member Bass asked if the outside Counsel's opinion can be shared and as a second check if they would get an AG opinion. Mr. Smith stated that he will ask for authorization to share the letter from outside counsel and he is not confident that an AG opinion would be forthcoming. CMS is still waiting on the Office Supply opinion.

Member Bass simply related that what is perception can become a challenge. To keep clear what is occurring in this process. Member Bedore asked about termination provisions. Mr. Fried and Mr. Cipullo stated there will be several in the State's favor.

Next on the agenda was CMS Property Management Division. Bruce Washington represented CMS. Mr. Washington presented a written asset management plan prior to testimony and suggested that this can be on the next agenda after review by the Board members. Chairman Healy said that this would be an Agenda item and asked staff to forward copies to the Board members who were not present.

Mr. Washington was asked at the last meeting of the Board to provide some specific information to the Board. He was asked how much money had been paid to IPAM up to the contracts cancellation. He responded \$13,372,000 of that \$213,000 as reimbursable.

He was asked to describe the relationship with IPAM as the contract was voided and about any work materials owed to the State by IPAM. Mr. Washington described the working relationship with IPAM as amicable during close out. CMS is examining deliverables. What is coming to CMS and in what format is to be completed in next 3 weeks.

Chairman Healy asked if IPAM would be out totally in the next month. Mr. Washington replied affirmatively.

Finally, Mr. Washington noted that 23 leases are in process and being negotiated at this time. He said they should be posted for the Board shortly. He said additional leases being considered number as high as 30.

Chairman Healy asked that this be put on the next meeting agenda for further discussion and detail.

The next agenda item was contract review for Federal Revenue Maximization (rev-max). The Board placed this contract under review so that it could better understand the process by which a multi project contract could be awarded in whole or in any combination of project to multiple vendors. As well, the Board questioned the participation of Maximus as a vendor who did the initial research on this project a year ago and the benefit they may have had over the last year to prepare a proposal for the RFP recently issued. Mary McGinnis, formerly of BOSSAP and Bob Greenly currently with Office of Management and Budget, were on hand to discuss the contract. Mr. Greenly stated rev-max began in the development process in November of last year with a method to identify vendors that had expertise in this area of maximizing federal reimbursements and moneys that can be applied to the State's social services programs. In February, the task became to identify the services where State needed support in order to bring reimbursement levels to the maximum.

In this instance, Maximus was awarded a single item from the project list, that being the Cost allocation portion, which is more about sustaining revenue. This is the only award being made at this time. Mr. Greenly stated that cost allocations received 4 bids. One vendor did not qualify technically. After the evaluations were made, Maximus, the incumbent vendor, had shown a 50% cut cost to the current cost and was the low price. He noted that the competition was

derived from former Maximus Employees and former DHS employees familiar with cost allocation.

Mr. Greenly stated that cost allocation was one of 2 functions that had a fee-based payment structure. The rest of the projects in the RFP are all contingency-based payments.

Mary McGinnis noted that in this RFP, the vendors were allowed to examine many state processes and go through many agencies: DHS, DOC, DCFS, and Public Aid as examples. In addition to the areas known by the State, the vendors provided 40 responses to unknown opportunities. It was requested in RFP that each vendor structure projects independently but allowed alternate pricing.

In the end, for this portion of the RFP, the incumbent Maximus was given the award. Competition from former employees forced Maximus price downward. Their low price prevailed. The Board had no further questions.

The next item on the agenda was the existing temporary services contract with CMS. Mike Smith and Nancy Wuttke represented CMS. Member Bass asked if the contract is statewide or are their separate contracts for the regionalized aspects of the work. Mr. Smith responded that the contracts were regionalized.

Member Bass motioned to review this existing contract for the Sangamon County Region. He stated that this was new territory for the Board and that the past discussion of this subject had a lot of statements and responses associated with it. He felt that this was due diligence for the Board.

Member Bedore spoke to second the motion. The motion passed upon the affirmative vote of Member Morales. The Chairman abstained.

The next order of business was a request from Senator Susan Garrett for the Board to participate in discussions and remedies to problems she sees in the specification writing and RFP processes. Several letters on the subject have been sent between the Senator, PPB staff and the Auditor General on the subject. Member Bedore stated that the Board should do everything it can to cooperate with the Senator and address her specific concerns.

The next agenda item was State Board of Education administrative rules on purchasing. The State Board had indicated via letter that it would be making changes in accordance with PPB suggestions. The Subject was deferred until the following meeting so that SBE had an opportunity to reduce this to writing in a rulemaking.

With nothing further a motion to adjourn was made by Member Bedore and seconded by member Morales. The motion was unanimously approved.



STATE OF ILLINOIS PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – September 9, 2005 Meeting

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Via telephone: Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the August 2, 2005 meeting held in Chicago. The motion to approve the minutes by Member Morales was seconded by Member Triche-Colvin and was unanimously approved.

Mike Smith with CMS began by giving a brief update on Procurement. He stated that for the last few meetings that CMS has been talking about how they are going to greatly increase their transparency in their publications in the Illinois Procurement Bulletin including the publication of renewals, whether or not there was an increase or decrease in renewal, why they renewed it, how many renewal options are left, and sole source postings to be in full compliance with the Procurement Policy Board resolution. The redesign of their bulletin is just about complete and will roll out middle to late October. He further stated that CMS still has some interfacing issues with IGPS they have to work out and make sure that they work, but once CMS gets this rolled out, it will just greatly improve their capabilities in reporting instead of a lot of free form text.

Mr. Smith further stated when a notice of award is publicized, there are going to be drop down menus, entry fields that allow CMS to capture a lot of detail data that they just do not have today. He stated that he thinks that it will give the Board a review process that's a lot easier as well.

Mr. Smith stated CMS is also looking at other ideas for the future to increase transparency such as posting a complete listing of all vendors who will bid on an RFP or an IFB so the whole story can be seen. He stated that CMS is looking at the possibility of publishing a report that will give the vendor community more of a listing of possible opportunities for future procurements. He stated some vendors have come to CMS and said they would like to know what the state is thinking about doing six months from now so they can prepare to possibly make an offer on a solicitation. So CMS is looking at a method to create a report that says three or six months from now look for this as an RFP or an IFB.

Member Morales asked if this would interface with the bulletin to which Mr. Smith answered that CMS's thinking it will be published as a general notice in the bulletin. Member Bass asked if on CMS's bulletin a vendor is able to come in and check off areas that they are interested in receiving notices to which Mr. Smith replied affirmatively and stated that it's an automatic e-mail notification. Member Bass then asked if this is where vendors are actually trying to get a sense on things that you may be looking at in the future to which Mr. Smith replied affirmatively.

Mr. Smith stated for example, service contracts sometimes require vendors to build resources and capacity in order to make an offer and sometimes 14 or 21 days may not be enough time for them to do that. So if CMS can somehow tell them ahead of time to look for a posting for this particular service, it will help. He stated that CMS is not going to commit that they are going to hit a date every time, but it serves as notice that they plan on possibly posting an RFP or IFB for a service contract and if a vendor is interested in that, this might give them two or three months time in which to build that capacity or those resources they may need to bid. CMS is trying to increase the participation, increase the amount of vendors that would make an offer.

Chairman Healy asked what type of time frame would CMS consider to be expected at this point to which Mr. Smith replied by the end of the year. Mr. Smith concluded by stating a couple of other things outside of the transparencies is to expect to see a spike in Emergency Procurement Publications in the near future due to the relief efforts with the hurricane that Illinois is involved in. He stated that a number of agencies have been heavily involved in the last week or two in trying to procure supplies and services to assist in Louisiana and Mississippi. Member Bass asked about the rationale tied to the Emergency Procurement Publications to which Mr. Smith replied that every one of them would be for the provision of Hurricane Katrina emergency relief efforts. He stated that even with these emergencies, CMS still does what they can to find the best value and the best price, et cetera, based on time constraints. He further stated that it's all coordinated by the Illinois Emergency Management Agency, so CMS is doing it on their behalf and at their request.

Mr. Smith also stated that in two to three weeks, a publication on a new statewide contract for a PC lease program would probably be posted. This new contract will provide agencies the option of either purchasing or leasing PCs and laptops. And the leasing component is a fairly new component. He stated that CMS is calling it kind of a refresher program. Part of the idea is to have vendor assistance with refreshing the State's PCs every few years at a greatly reduced cost.

Mr. Smith then stated that he would like to address the Spend Management System and that they've always known that their next biggest step was to develop a Spend Management System and to get their arms around our actual spending. He stated that in May of 2005, a contract was entered into with Bearing Point to help develop an Enterprise Spend Management System. Since they've been on board for a few months, it was a good opportunity to bring them in front of the Board to update the Board on what spend management is all about and what it's going to do in both the short term and the long term. He further stated that he thinks this will really be huge for the State and huge for the State procurement.

Lee Kuhn, Manager of Bearing Point and Venzio "Vinny" Arquilla, manager and director of Bearing Point addressed the Board. Mr. Kuhn stated that in looking at the State's existing systems and processes, there is not an opportunity for most agencies to perform spend management. He further stated that there are several different research organizations out there and an effective Spend Management Solution can provide benefits.

Mr. Kuhn stated that Bearing Point defines Enterprise Spend Management as the comprehensive approach to capturing, controlling and utilizing organizational spend information to help maximum the buying power of the organization and throughout the procurement life cycle. He added that the best practice organizations have technology, tools and applications that support their procurement activities after sourcing activities. For a Spend Management Program to be effective, an organization must use it to address how to structure the teams' roles and responsibilities; how do you measure performance; Strategic Sourcing efforts and whether an RFQ process is in place.

Mr. Kuhn addressed Knowledge Management. How do you expand organizational knowledge? By Spend Capture. How you increase your visibility to what you are spending your money on? Management Reporting.

Reporting to help show that you have contract compliance through Supplier Relationship Management. How do you measure your vendors' performances against your agreement? Do you also look at minority and women owned business programs, small business, and things like that? Automated Workflow. Putting work flows in place to get approvals before purchases are made. Getting better visibility to transactions before they happen as opposed to the back end.

Then the next time you go out for bids, you've got better information to provide to vendors and get better pricing. In terms of the sustainable savings, there are four key components. You look at organization, technology, process and controls and management reporting. Bearing Point's Spend Management really spans all of these areas here and really asks how do you look at these key components and make them most effective in your organization. In terms of the technology side, there are really three key activities that we are looking at. Solicitation; how you actually go out and solicit bids. The fulfillment; how you fulfill the orders against those contracts.

Member Bedore asked how much will this effect reporting changes in the contract midstream; renegotiated contracts giving the vendor more money than what was originally allowed to which Mr. Kuhn stated that the ability is there to create visibility to spend in the report and there are better abilities to understand where it's coming in the middle of your spend.

Mr. Smith stated to Member Bedore that he believes it will give data and information to make those determinations whether or not it is appropriate to amend contracts to which Mr. Kuhn agreed. Mr. Smith then went on to say that it is a much larger and more detailed database of data information than CMS has today to make these types of decisions.

Member Bass stated that he wanted to understand the semantics being used. He stated that when he talks about procurement in his domain, what he is talking about is purchasing, logistics and impact. The whole purchase to pay scenario seems to be more the focus right now in terms of what the contract was bid out and the spends on that particular contract and maybe not so much the other two parts of the process.

Mr. Kuhn stated that this is primarily focused on the two back pieces as opposed to the front so much. The long term gives better visibility and helps one drive better on the front piece. Member Bass asked if that is because one can derive savings from all three of those to which Mr. Kuhn replied the actual project being rolled out right now with CMS focuses on major activities like Management Reporting, Technology Selection and Supplier Relationship Management Program.

The first is Management Reporting. This is very much a tool to support enhanced near-term reporting to increase visibility to spend. Who are we spending money with? What agencies are spending different amounts, different categories? Right now it's very difficult to get that information with all of the different systems out there. This is a way to send across all of the different tools that the CMS has in place and agencies have in place for a consolidating reporting tool.

The second is the Technology Selection. This is focusing on what are the business requirements are to help support the long-term that will look end-to-end from the sourcing piece to the back end for the fulfillment and then reporting of the back end as well.

Supplier Relationship Management Program provides a reporting framework for ongoing management. This helps to drive savings further in cost and through supply chain. Training for CMS will occur on how one would use the reporting tool put in place.

Member Bedore asked if the reports being talked about would be available to the Board to which Mr. Smith answered affirmatively. Mr. Smith further stated that this breaks down the spend a lot further than can be done today and he thinks it will be extremely helpful to everybody.

Member Triche-Colvin asked from looking at the management-reporting element of this with different agencies and different categories, if there will be something in place either by CMS or through the report where a consolidation can be implemented to different agencies that are purchasing the same type of commodities. Mr. Kuhn replied that this would support the ability to do that. Mr. Smith stated that he believes it will give the information to identify those supplies or services in which that may be happening to which Mr. Kuhn stated that the ability to drill down through spend by vendor, by commodity.

Member Bass asked if it depends on who is buying to which Mr. Smith replied yes. Member Bedore then asked if the reports would be automatically submitted to the Board or if the Board would have to request them every time; if it will be a part of the procedure where the Board gets them in a timely fashion to which Mr. Smith replied that if there are certain reports that the Board wants to see on a periodic basis, he doesn't see why CMS can't set that up on a monthly or quarterly basis to draw these reports and give them to the Board. Chairman Healy asked if once CMS has those reports, if at the next meeting of the Board, they would be either presented or presented prior to that board meeting. Mr. Smith replied that he didn't want to speak for Lee or Vinny, but he thinks that CMS could have sample reports because they're still early in the process, so the information is not out there yet. He continued by stating that he feels CMS can definitely say here is what a sample report will look like by the next month's meeting.

Mr. Kuhn stated that they are now in the process but that probably by mid October they are going to actually have the tool out and have live data to look at. Member Bedore stated that he thinks it would be very helpful if Matt Brown, Mr. Smith and the Bearing Point representatives went over the reports before the next Board meeting. The Board then can decide if all of these reports are needed or simply a synopsis. He stated that he thinks it would be very helpful rather than the Board requesting them. Mr. Smith stated that he would discuss that with Matt and let Matt know what the different options would be. He also said that he thinks it's still rather early to get the true numbers, but that's what they're working towards and they will let the Board know what the capabilities are going to be.

Member Bass asked, in regard to line item spend, if Mr. Kuhn was talking about the actual detailed line items on invoices to which Mr. Kuhn stated that the ability with IGPS data to actually look at line item detail and, in some commodities, vendor detail information is there.

Member Bedore asked if they analyze this back to budget line item that the funds are there to which Mr. Kuhn replied again that the ability to so is there but he doesn't think right now they have budget information included in the data pool, but that's something that can be done. Member Bedore then asked if a department planned \$10,000 to buy pencils or whatever, would it be known whether they actually have \$10,000 to which Mr. Kuhn replied that at this time, they are not pulling that in, but that's something that can be looked at.

Mr. Kuhn concluded by saying that at this time, focusing on where they are at and going forward, they are finishing data collection activities. They are working on portfolio managers with Mike Smith and Shelly Martin as well as SPOs and getting feedback on the drafting of the reports and part of the project and working with the different teams on any issues or concerns that come up. He further stated that then they are gearing up for the training sessions, for the roll out.

Mr. Smith stated that they want to entertain any questions that the Board may have, that he is curious as to what the Board thinks of Spend Management overall. He also stated that it sounds like, from some of the questions, that there is definitely an interest in some of the detailed reporting they may be able to produce moving forward.

Chairman Healy stated that he would certainly say that the Spend Management Plan is something that is needed and he thinks that the consideration is what is it going to cost to check what is being spent and also what time frame is there as to when this is all going to be up and running; that would be the two main things that the Board would be considering with the details. He further stated that as the details are available, the Board would ask other questions on it.

Member Bass asked what the value of the contract with Bearing Point is to which Mr. Smith replied \$1.7M for a 12-month contract. Member Bass then asked if there is a renewal option in the contract to which Mr. Arquilla replied that there is a 12-month renewal.

Mr. Bruce Washington, Director of Central Management Services, Bureau of Property Management was next to address the Board. He stated that the meeting before the last meeting, he left with the board a draft Asset Management Plan. Since that time, CMS has finalized the plan and the Board has been given a copy of that.

There were no changes made to the final version from the version the Board was given. CMS has taken all of those being performed by the Asset Manager and are doing those activities in house now. This plan addresses that. It addresses some of the gaps that CMS had articulated might exist from the removal of the Asset Manager and just how CMS is going to carry the program itself. At the last meeting, it was thought that it would be more prudent that time is taken between meetings to review it and this meeting would be where questions about it would be addressed.

Chairman Healy asked if any Board member had any questions on the plan that was passed out at the last meeting to which Member Bedore asked about the number of holdover leases. Mr. Washington stated that he didn't have the exact number at hand, but he believed there were somewhere around 250 holdover leases. He further stated that there is a holdover strategy that is developed and that CMS is now implementing that strategy. He stated that shortly the Board should be receiving some leases; that CMS has about 65 that they are dealing with. He said CMS has developed 12 phases for the implementation of this strategy. They have taken all of the leases that are in holdover plus the ones that are expiring by January of '07, identified them and grouped them into phases and when they would be coming up and when CMS would be addressing them. Mr. Washington stated that he has a staff of about eight to work the 65 leases being dealt with currently. He stated that they are overloaded, but they are still moving forward. Mr. Washington further stated that by January '07, CMS would have started activities as far as the renewal or the replacement determination of all of those leases. He added that does not necessarily mean that come January '07 that there will not be any leases in holdover but that come January '07, all of those leases will have had some activities started as far as the execution or the renegotiation of that lease.

Mr. Washington continued by stating that there are some leases that have been in holdover since 2001 but there has been no activity to address as it is not grouped into a phase where there is staff working it right now. He added that CMS did not want to implement any new leases until they had a strategy and this new lease document. CMS has all of that now and they are able to move forward and by January '07 they will have touched all of the leases that are in holdover; will have started work on them. He explained the timetable in that CMS could get a space request from the Agency, started the due diligence for that particular lease and take six months to complete.

Member Triche-Colvin asked in relation to the time frame, will Mr. Washington be coming back to the Board on a monthly basis or a quarterly basis to notify the Board about how many leases have been reviewed or how should we expect to get feedback in reference to asset management. Mr. Washington stated that CMS will be coming back before the Board on a regular basis with the leases to be approved or signed off by the Board. Mr. Washington then suggested that he and Executive Director Matt Brown sit down and discuss what would work best for the Board and how CMS can accommodate the Board. He further stated that at this point, CMS is moving forward and they are moving fast but they had not given much thought about reporting to the Board on a quarterly basis as to the status, but he could see that perhaps that's something that to be worked out. Member Triche-Colvin stated that as a Board member, she would like to know the progress that is being made.

Member Bass asked if the strategy is to address the oldest leases first to which Mr. Washington stated that CMS looked at criteria established. That being the critical nature of a particular lease, the size of the lease, working with the agencies, the importance for them to move. Another one would be that in some cases, CMS may have problems with certain landlords as far as them not providing the services that they were contracted to do. And sometimes when you get in holdover, the landlord does not want to do anything because it's a monthly lease so, in those particular cases where CMS has had some issues with the landlords, they will kick that one up in a higher priority. Mr. Washington added that they also structured it based on the staffing, on the anticipated staffing that's going to be required to handle this volume of work.

Member Bass asked if it is possible to get a list of the current holdover leases and where they fall in CMS's phasing to which Mr. Washington affirmatively. Member Bass then asked Mr. Washington about the rent involved in a hold over lease and Mr. Washington replied that the rent in a hold over monthly lease is the same as the last monthly payment of that current lease.

Member Bass stated that it would seem to be prudent to assess whether or not it is in the State's best interest to go outside and supplement their staffing to get this cleaned up because he believes that there are better deals out there than letting people wander along on a monthly basis. Mr. Washington stated that he is not a proponent of that because he doesn't believe it should be taken advantage of, opportunities or the public, but in many cases for those leases that are in holdover that go back to 2002, the market rates were low. He continued stating there has been inflation and rate increases or market increases, but yet the State, in some cases, is reaping the advantage of a market that's five years old.

Chairman Healy asked if when the leasehold offers come up, if they will be on the Bulletin to which Mr. Washington replied if the Chairman meant the leases would be on the Bulletin once CMS is ready to bring the lease before the Board and there has been an award, then yes.

Member Bedore asked Mr. Washington for an estimate as to when the Board would have the opportunity to look at the leases that Mr. Washington mentioned to which Mr. Washington replied that the Board would be given advance notice. Member Bedore then asked if CMS was working on space standards, so many square foot per employee, etc. and Mr. Washington replied affirmatively. Member Bedore then asked about parking.

Member Bedore read from the minutes of the January 26, 2005 meeting: "Member Bedore asked Mr. Washington about parking. He stated he did not know why the state provided parking for employees. And he wanted to know what the cost of providing the parking was. Member Morales agreed. Member Triche stated that she feels Member Bedore parking policy is presented on a larger scale and trying to identify the cost and any policy changes that would equate to savings for the state. Mr. Bedore stated that CMS is currently proposing standards for inside the building and what he is suggesting is that standards be set for outside the building. Mr. Washington stated that he would keep it on the radar screen and look into it. Member Bedore asked for an update on parking space standards at the next board meeting. Mr. Washington stated that CMS

cannot at this time pay attention to this issue. However, by the spring of '05, CMS would have looked into it and have an answer.” Member Bedore then stated that this is now the fall of '05 and asked if there was an answer yet to which Mr. Washington replied that CMS has looked into it and that they're articulating the need for a policy. He further stated that priorities have changed since that time. During that time, CMS was working with their Asset Manager in managing and implementing the program. He further stated that there has been a lot of activity that has come out regarding the Asset Manager and with that, a lot of their resources have been pulled away from CMS looking at certain things in order to address the Asset Manager issue, but it is something that CMS still has on their docket to complete. He stated that it is just a matter of priorities.

Member Bedore stated if CMS is going to bring 65 leases to the Board, wouldn't they have already looked at paying for these parking spaces; wouldn't CMS want that part of the lease coming to the Board. Mr. Washington replied that parking is not always a part of a lease. Member Bedore replied that in a good number of the leases it is and CMS doesn't have any standards set for that to which Mr. Washington replied that at this point, CMS looks at it on a case-by-case basis. Member Bedore asked if CMS had any policies set because Mr. Washington had previously stated that by the spring of '05 it would have already been done.

Mr. Washington stated that he agrees and has told the Board why CMS has not completed that to which Member Bedore asked how can CMS bring leases to the Board without having this standard and policy set. Mr. Washington replied that in his opinion, this has been the practice for decades and he doesn't know if one can expect that everything is going to be changed overnight. He further stated that CMS is making changes as they go, but they don't want to hold up the ship until everything has been modified or changed to complete some initiatives.

Chairman Healy stated that he thinks at this point Member Bedore would like to see some type of consideration given to parking outside the building and that it should be one of the considerations in the leases that are presented to the Board as to, if there was parking given outside the building, why those exceptions were given in those areas or for a particular reason. He further stated that if CMS could give the Board some information on it, either on an individual, case-by case basis or on a general basis as to what the policy is going to be for CMS with the parking, that would be fine. Mr. Washington stated that CMS would do that. Chairman Healy then stated that if it is left strictly as a case-by-case basis, if Mr. Washington would give the Board a report on it or if he would come back with a general policy that would be fine, also. Mr. Washington stated that there are some leases where there is parking that's associated with those particular leases and that CMS will establish some rationale or justification for it. Chairman Healy stated that if there is a cost involved with the lease for that parking, the Board would like to know that specifically then he thanked Mr. Washington for his participation.

Chairman Healy then brought up the next item on the agenda, which was the contract review. The first one is for Northern Illinois University for snow removal. Executive Director Matt Brown explained the review. He stated that in the course of the staff review on this proposed contract, it was noted there were a couple of circumstances within the RFP as well as the evaluation documents causing question to the application of the prevailing wage rates clearly being established as a requirement of award as well as the specification for where snow is to be removed to during the-during the process. He continued that staff concluded in reviewing the evaluation documents that vendors recognized as previously performing this type of work for the universities had determined not to bid on this particular opportunity for an undisclosed reason. One finding was that the Department of Labor did not recognize snow removal as a prevailing wage occupation and that staff found it difficult for vendors who may or may not subscribe to prevailing wage requirements and whether or not that had an impact on their decision to bid. On removal requirements, it was recognized that snow removal was actually available at a local destination on the university campus that was not disclosed within the RFP, or the related proposed contracts. The incumbent vendor had that knowledge. In that, staff determined that there was an

opportunity for competing vendors to be unaware of factors that influence their costs, their man-hours, et cetera, staff had suggested that the university take these things into consideration and this demonstrates that on a state-wide policy basis that these types of things should be considered. Specifically with the application of prevailing wage, that the use of that requirement be done in a manner that is generally read by all participants as a mandatory requirement or applied as specified in law.

Mr. Brown stated that the distinction made at the staff level is that it was established prevailing wage as determining criteria. The intent wasn't for the university to go out and decide who should and who shouldn't bid based on their demonstration paying of prevailing wage. They were merely asking the vendors to comply with the law. In that regard, boilerplate statement to the fact that the prevailing wage is applicable to all vendors as required by law would certainly suit that.

Chairman Healy stated that he understands that there could be a concern with where the snow is going to be removed to and asked if there anyone from NIU that who would like to speak on this matter. Al Mueller, the Director of the Procurement Office at Northern Illinois University came before the Board along with Bob Baker who was representing the Chief Procurement Officer for Higher Education. Mr. Mueller stated that Northern understands the concerns that were expressed in the review and that they agree with those recommendations and they look to implement them. He further stated that Northern is very glad to condition their statement regarding the prevailing wage to state, "If it is applicable". He continued that the vendor would know whether the prevailing wage applies to their workers or not. He stated that he spoke with their physical plant and they are very agreeable to stating in a proposal that the university can provide some suitable location for the snow to be removed and that would then provide other vendors perhaps the opportunity to bid whereas they might not have as specified in the RFP. Lastly he stated that they did not hear specifically any concerns from any vendors and had they heard from them, they would definitely have worked these issues out and he thinks that they would have been able to provide them with a satisfactory alternative that would have allowed them to bid.

Member Bass asked Mr. Mueller if he thought that most of the people that bid on that were aware that they had the opportunity to dump on the grounds to which Mr. Mueller responded that he thought so and that that he knew of only one other vendor who the university does business with that would have the capacity to meet the requirements that were specified and they do have other work on campus. This is of a lesser dollar amount and he believes that would not have dissuaded them in Mr. Mueller's personal opinion. Member Bass stated that the only concern that he had was that it could be perceived as an implicit advantage for an incumbent or someone that had done business, so he felt that Northern was doing the right thing for making the correction.

Chairman Healy agreed stating getting back to the prevailing wage part of it, the whole purpose of it here is to put all of the contractors on the same level playing field and he thinks that's a fair way to do it to make it mandatory if that's what Northern's procedure is going to be. With no other questions or comments the Chairman thanked Mr. Mueller and Mr. Baker and moved to the second contract to be reviewed.

Mr. Brown addressed the Board stating that the Department of Central Management Services has submitted a proposed contract for the procurement of electrical supply for particular state facilities that are located within the ComEd distribution territory. The nature of this procurement was based on recent deregulation of electrical suppliers. The intent of Central Management Services was to provide a block of electricity to supply its facilities as well as establish a system where a component of renewable energy can be included in that supply. In staff review of the transaction, staff basically found two circumstances of concern. In the development of the RFP, which is highly technical in nature, staff realized that several times references to particular aspects of the renewable energy component seemed to have different connotations. He continued that there should be a uniform approach to making such a request and that any sort of preference would be done in a very clear capacity. Also, notifying participating vendors what value is associated with that preference is critical. If there

is, in fact, value that may enhance a bid for the vendors, it should be very clear to them what that value is and how that enhancement would support their bid towards ultimately being the awarded vendor.

Mr. Brown continued with a second concern stating as staff looked at evaluation documents and criteria that, given the way that the RFP was crafted and its association to the particular questions the evaluators used to score the transaction, staff felt that there was an absence of instruction on what components may be objectively scored or subjectively scored and how that consideration is applied. He stated that the basis for that did not appear to have any impact on the final evaluations but, in the course of procurement, in the RFP process, absence of those instructions, create a very easy opportunity for scoring an evaluation to go awry. These were the points addressed with Central Management Services in advance of this meeting. Chairman Healy asked of CMS's position to which Mr. Brown stated he thinks CMS is in concurrence with the concept of making sure that RFP development and evaluation procedures have language that coincides from the beginning of the process to the end, that evaluation instructions are clear and concise and that the Board is looking at components of the RFP that include evaluation and scoring. It's important for the vendors to be fully aware of the impact of their answers.

Chairman Healy asked if there was anybody present that wanted to make any comments. Mr. Smith stated that he would allow the CMS SPO and a couple of their experts to answer questions. Mr. Tom Sestak, State Purchasing Officer for Central Management Services, addressed the Board stating that he agrees with Mr. Brown's comments and CMS has had numerous conversations regarding these aspects with Mr. Brown. Mr. Sestak further stated that he thinks, as procurement professionals, one is always in search of the perfect RFP and, in hindsight, some of the wording could have been shored up a little better. He concluded by stating that CMS support the Board's concerns and they intend in future RFPs to make sure that items such as the portrayal of the preference is done in a meaningful way.

Member Bedore asked if Peoples Energy Services was the old Peoples Gas. Mr. Donald Burns, Energy Manager for CMS stated that Peoples Energy Services is a deregulated affiliate of the local utility company for the City of Chicago People's Gas. The Peoples Energy Corporation owns it, but it operates in a deregulated marketplace and it is arm's length from any other company under the holding company. Member Bedore then stated that this is a ten million dollar contract with no other comment.

Member Bass stated that he is trying to understand the process and asked whether or not ComEd bid to which Mr. Burns replied negatively. Member Bass then asked if the distribution or transmission of the energy is going to go over their infrastructure to which Mr. Burns replied affirmatively. Mr. Burns further said that ComEd, as operating entity, is enjoined from participating in this marketplace because they are actually a regulated utility. They have an affiliate, as does Peoples Energy called Exelon Energy Marketing. They did not submit a prior proposal. Member Bass then asked if different meters will need to be put in at the phase times to which Mr. Burns replied negatively. Mr. Burns also stated that the metering structure does not change from supplier to supplier so the transmission and distribution of the power is all physically done by the utility company. Mr. Burns also stated that as part of the regulated function, interstate transmission arrangements are made by the supplier using the interstate grid, but that grid is operated in tandem with regional transmission organizations by the various utilities that actually deliver the power to the customer. He continued stated that the metering infrastructure that is in place today is what was in place before this contract was awarded. Basically this particular contract, while it has a stipulation as to the unit costs for the power, is open ended to the extent that all of the power used within an unlimited bandwidth comes at that unit price for the accounts that are listed in this contract.

Member Bass then asked if ComEd wanted to come in through this, they would come in through this if they chose to want to. Mr. Burns replied that if they were to have participated in this process, the Exelon

Corporation would have participated through its marketing affiliate. The original title of the RFP actually directed the notice of availability to each of the companies that was registered with the Commerce Commission and with ComEd to control power in the ComEd territory. They had an opportunity and, for business reasons I imagine, declined to participate. Member Bass then asked if a unit cost of power was bought, one is locked in for 15 months to which Mr. Burns replied affirmatively.

With no other questions, the Chairman moved to the next agenda item. Mr. Brown again addressed the Board. He stated that over the last several months, the State Board of Education has been in communications with the Procurement Policy Board and the Joint Committee on Administrative Rules on a number of changes they intended to make to their procurement rules. In short, their initial effort was to rescind their purchasing authority and become a purchasing officer under the direction of Central Management Services. It was determined by the Board that it was not an agreeable approach as well by the Joint Committee on Administrative Rules. The conclusion was that SBE would not be abdicating their role as a procuring officer. They have determined that they would like to rely on Central Management Services to provide certain aspects by incorporating CMS rules by reference so that they can participate in small purchases or the small business set aside program and joint purchasing. He concluded that brings them back to the point at which they initiated just a lot less paper. Staff recommendation is the Board's approval.

With no comments, the Chairman moved to the next agenda item, which was a future meeting date. It was determined that the meeting would be held in Springfield again with an open date when the legislature was in session.

With nothing further a motion to adjourn was made by Member Bedore and seconded by member Triche-Colvin. The motion was unanimously approved.



STATE OF ILLINOIS PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – November 3, 2005 Meeting

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales

Absent: Carmen Triche-Colvin

The Board started the meeting by discussing organizational issues and the approval of the minutes for the September 9, 2005 meeting held in Springfield. The motion to approve the minutes by Member Morales was seconded by Member Bedore and was unanimously approved.

Mike Smith with CMS appeared regarding Rule changes. He briefly summarized the proposed rules. He then asked the Board if any Member had any questions. Chairman Healy asked if emails are placed in Procurement files to which Mr. Smith replied yes. Chairman Healy stated that he feels that emails should be kept. He further stated that the proposed rules establish how a CPO will split an award between vendors, and he asked if it is mandatory for the vendors to split the award. Mr. Smith replied that he believes splitting an award would be an option. Member Bass stated he had a question in reference to the proposed rules emergency allowance of work to begin prior to final execution of the contract and stated that he's seen in the past audit issues where the work had begun before the date of execution on the contract. He asked how CMS is protected against that. Mr. Smith stated that work could not begin before a contract is executed. Mr. Ben Bagby of CMS added that in the result of bids tying, that basically the bid price is the issue and that a tie is unusual. CMS in this instance added a procedure for tie proposals. Member Bass then asked if CMS has an allowance for 2 or 3 vendors to blend in a best and final process to which Mr. Bagby replied that it is possible. Mr. Bass then asked for clarification that in order for that to happen, it would have had to be presented it as an option in the proposal document to the vendors. Mr. Smith stated that an RFP cannot be materially changed but that the best and final process removes all ties. Chairman Healy suggested further review on the changes. Member Bedore moved, seconded by Morales to table this issue. It was unanimously approved and held over to the next meeting.

Next, Mr. Smith spoke to the Board of the redesigned bulletin that was discussed at the previous Board meeting. He stated that it was scheduled to open November 7th and that it would list the winner of an RFP along with all the other bidders, publication for bid opening, notice of subcontractors being used and further information on sole source justification and emergency justification including a reference to applicable rules. Mr. Smith further stated that the Board's Executive Director, Matt Brown will have time to evaluate the changes before the next meeting of the Board.

Member Bedore stated that Member Bass asked Mr. Bruce Washington to provide a list of current hold over leases and asked if that was available. Mr. Washington stated that the list was being sent to the Board's office that day. Member Bedore then asked about the updated parking standards to which Mr. Washington stated that CMS is working on it. That parking is dealt with case by case and that CMS should have a parking policy to the Board's office prior to the next meeting.

m:051103

The next issue on the Agenda was Contract Reviews. Mr. Brown explained the review on Healthworks, a DCFS contract. He stated that the Code has a required amount of disclosures for any level of State contracting. That this vendor, by having so much State work within this area of expertise, enters into the DCFS contract and creates potential conflict with established contractual relationships through other agencies and the awarded vendor.

Ms. Sharon Clanton of the Department of Children and Family Services approached the Board. She stated that Hamilton Bell is long-term consultant with DCFS and there are very few healthcare contractors and the vendors are spread out between the healthcare agencies across many different boundaries. A Confidentiality agreement exists between Hamilton Bell and DCFS to prevent conflict. Member Morales stated that a review was recommended because of the potential conflict. Ms. Clanton stated that the particular vendor has particular expertise and there are very few such companies with the expertise. Chairman Healy asked how many vendors DCFS deals with to which Ms. Clanton stated 3-6 vendors based on expertise for different programs.

Member Bass stated that the review of the RFP draft causes him angst in that Hamilton Bell was very close to the RFP development process. Ms. Clanton stated that staff wrote the RFP, Hamilton Bell did not and write or evaluate the bids. Member Bass then stated that he feels from this review that DCFS would have most likely made the same choice of vendor. Chairman Healy then asked if there is any consideration given, considering the fact this vendor participates as a vendor both with the State and the awarded vendor or if they interact at all to which Ms. Clanton replied no, that activity is occurring through the other Agency. The Board had no recommendation for DCFS. Staff will further review.

Next up was the review of the Temporary Services contract. Mr. Brown stated that at the August 2nd meeting, the Board voted to review the temporary services contract. He stated that the Board members had information in their meeting packets that contain some basic statements about the evaluation process, the formula for developing price points and how the competitors scored against one another. He further stated that one of the conclusions from this was a lack of formula to test vendor submissions against. There was no opportunity to understand whether or not vendor submissions were complete or accurate. It was also recommended that the Agencies consider the statements and requirements in the RFP as they carry over to the contract award. Mr. Brown stated that there were particular statements about how contracts could be amended in the future. Responses made part of the RFP during the question and answer sessions with the vendors indicated that those circumstances were limited and specifically limited to the time of renewal. This contract was amended outside of that frame of reference for purposes of compensating for additional unemployment insurance.

Mr. Smith stated that the question and answer session did seem to contradict the original RFP that contained language that allowed for mutual consent between the vendor and the State to negotiate a rate change during the contract term. He wanted to point out that in the recommendation it suggested there should have been a method to test calculations and verify outcomes. He stated that one of the changes CMS is making in the proposed rule changes should address that by stating that all price sub-factors and their relative ranking must be shown in the RFP. He stated that this doesn't address the issue 100%, but he thinks it comes very close. If the rule change passes and CMS writes the RFPs to include sub-pricing the issue should be minimized.

Chairman Healy stated that the unemployment insurance increased and CMS allowed one vendor to receive an increase but not all three vendors to which Mr. Smith stated he didn't believe the other two vendors requested an increase. Member Bass asked if there was a standard ratio expected in terms of proportion between technical and pricing scoring to which Mr. Smith stated there is no standard. Member Bass then asked if that is assessed when reviewing another agency's RFP to which Mr. Smith replied affirmatively.

Member Morales asked was this amendment during the renewal to which Mr. Smith stated it occurred prior to the renewal. Member Bedore then stated that he thinks the other vendors didn't request increase because they knew of the increase in unemployment insurance and Illinois minimum wage requirements prior to submitting their original bid. He further stated that he applauds CMS for the rule change. Mr. Smith stated that he understands the Board's concern and that CMS is moving forward and they hope to have rules in place and factors will be taken into consideration next spring when renewal is up.

Next on the agenda was Legislation. Mr. Brown stated that there was one bill that had procurement impact and that it was amended as recently as this morning. He further stated that the bill would probably see some action later that day and could be further amended. The Bill includes moderate amount of change to the Procurement Code and was summarized for the Board. Chairman Healy asked if CMS wanted to comment. Mr. Smith stated that there is a duration being considered for the length of emergency contracts. The possibility of a six-month limitation or less is a real concern when running into an emergency of drastic proportion; there is nothing to allow for an exception.

Chairman Healy brought up the issue of hold over leases and asked if Mr. Washington can get holdover leases done in six months. The Bill proposes that leases may remain in holdover for a period on not more than six months. Mr. Washington replied negatively stating that some leases take more than six months to finalize. Member Morales asked if the time frame was due to lack of resources to which Mr. Washington stated yes. Member Morales then asked if there is anything that can be done about it and Mr. Washington stated possibly bring in an outside source on a temporary basis, with experience in lease execution or to increase staff but consideration needs to be given to the fact that after getting past the hold over lease back log, the staff would no longer be needed. He stated that they are trying to develop a balance.

Member Morales then asked if it would worth it to get the holdover leases out of the way rapidly to achieve additional savings. Mr. Washington stated that saving money was not an issue unless there is a consolidation or reduction planned and in regard to holdover leases, the rate will most likely go up since the market is higher today.

Member Bedore stated that with the new standards in place, he doesn't feel conference rooms and smoking rooms and basements for storage that aren't really needed will go away and to say there wouldn't be a savings is incorrect. Mr. Washington stated that there are union restrictions in regard to smoking rooms and the displacement of space is not guaranteed to save. Member Bedore referenced several building where he has reviewed space use conditions and quality of facility prior to Board review. On each occasion the Board forced lower rates based on its findings.

Mr. Washington stated that CMS has not been entering into new contracts without the new lease documents and terminology and that the documents are now finalized. Chairman Healy asked if there have been any renewals since April to which Mr. Washington stated yes, there have been existing leases that have been renegotiated. Member Bedore asked if CMS had presented any leases to the Board to which Mr. Washington replied affirmatively; that he didn't have the numbers but he thinks more than two. Chairman Healy then asked how many leases are in holdover and Mr. Washington stated about 250.

Chairman Healy stated that he thinks they should be done quickly, especially if legislation is passed. He further stated that this Board is under a duty to put pressure on CMS to get them done. If there is a 6-month limit that is what the Board will go by. Member Bass asked if the limit was 6 months or clear out of the space. Mr. Washington stated no, but the impact of being in holdover for 6 months is that it then forces CMS into doing things they wouldn't necessarily do for example, it may force CMS to sign off on a negotiation price where if

given more time, could have been negotiated at a better rate. Chairman Healy then asked of CMS has the option of a 1-year lease while negotiating to which Mr. Washington replied affirmatively.

Member Bass stated, in trying to understand, if there is a lease that will go into holdover and the Agency has 6 months to clear out but they don't, what happens to which Mr. Washington stated the lease will become a holdover month-to-month lease at the rate of the last month's rent. Member Bass then asked for clarification. Mr. Brown stated that his perception is that if the law limits holdover status to 6 months, then CMS would have to take an alternate action to stay in that location such as a one-time 364-day lease.

Chairman Healy asked if there is a lease provision regarding verified information being incorrect to which Mr. Smith stated he believes that is in contracts in general. Member Morales asked if there was a plan if the Bill passes. Mr. Smith stated that from an implementation standpoint, not at this time. Chairman Healy stated that if this does pass, the Board would like some type of report.

With no other comments, the Chairman moved to the next agenda item, which was a future meeting date. It was determined that the meeting would be held in Chicago with an open date.

At this time, an executive session on personnel lasting 10 minutes occurred. Member Bass moved, seconded by Member Bedore to move to executive session. It was unanimously approved.

Upon conclusion of executive session, nothing further was considered. A motion to adjourn was made by Member Bedore and seconded by member Morales. The motion was unanimously approved.



STATE OF ILLINOIS PROCUREMENT POLICY BOARD

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – November 14, 2005 Meeting

Present via telephone: Terry Healy

Mike Bass

Rick Morales

Ed Bedore

Carmen Triche-Colvin

The Board started the meeting by confirming attendance at 3:30 p.m. At 3:35 p.m. the Board moved into executive session on personnel. The Board reconvened its regular session at 3:45 p.m. Motion to adjourn was made by Member Triche Seconded by Member Bass. The motion passed unanimously. Meeting adjourned at 3:50 p.m.

Terrence Healy, Chairman

Members: Michael Bass, Ed Bedore, Ricardo Morales, Carmen Triche-Colvin

Minutes – December 1, 2005 Meeting

Present: Terry Healy
Mike Bass
Ed Bedore
Rick Morales
Carmen Triche-Colvin

The minutes of the 11/3/2005 meeting were moved for approval by member Morales and seconded by Member Triche-Colvin. The motion was unanimously approved. Next, Member Triche-Colvin moved for the approval of the 11/14/2005 meeting minutes. Member Morales provided a second and the motion was unanimously approved.

Central Management Services was next on the agenda. Mr. Mike Smith began by introducing a concept commonly referred to as a “Rate Card”. He stated that CMS would be filing this as an Emergency Rule later in the week. He described the action a multiple award process used when anticipated volume or the type of procurement justifies the need for multiple vendors. He stated that the award is granted to primary & secondary vendors for the same supply or service.

Specifically, this adds a new section to multiple award language in the administrative rules. Multiple vendors are pre-qualified for the same service at a set rate with an equitable distribution of work.

Mr. Smith stated that the benefits of this approach are: All eligible vendors are encouraged to submit bids in a fair, open & competitive environment; there is an equal playing field for all vendors; the budgetary impact is known upfront; there is full transparency via bulletin posting; work is distributed among all qualified vendors thru a random, rotating selection process and provides for small business set asides.

On why the change is needed, Mr. Smith stated that a bargaining unit agreement specifically with AFSME on Information Technology personnel transitioning from contractor-based service providers to State employees is at hand. He stated that the process however is applicable in many procurement scenarios when an advantage can be found through multiple vendor availability (Court reporters for instance) or it is most economical to use a set rate.

Member Bedore asked about complications with a set rate, for example, a \$50/hr rate that is appropriate for a metro area but Sangamon County rates can't do it for less than \$55/hr. Mr. Smith responded that there is a possibility of different rates in different areas of the state.

Mr. Smith stated the following reasons for why it was filed as an Emergency: An immediate need to address IT system development and support; immediate need to control/lower costs;

accelerate filling of critical IT service needs; ensure compliance with bargaining unit agreement which has a December 31, 2005 deadline.

Mr. Smith reiterated that the procurement itself is not an emergency, the amendment to the rule is. And that it will be some time for the permanent rule become effective for other procurements.

Member Bedore asked what type of critical IT services are in jeopardy. Mr. Smith replied that it affects program developers, application support staff, and specialized data processing software. He further stated that the AFSME agreement requires that after by 12/31/05 the State will replace contractual staff with state employees.

Member Morales asked how the vendor pool works. Mr. Smith responded that a random or rotating system would be developed and that once a vendor is selected they go to the bottom of the list-randomization software possibly. A provision also allows for the Agency to possibly request certain educational / performance requirements in a vendor who is in the pool.

Member Bass asked if this is like the "Body Shop" contract. Mr. Smith replied that in the past, "Body Shop" contracts allowed the Agency more flexibility in selection individuals. Member Triche-Colvin asked what if an agency wants to use the same vendor for continuity? Mr. Smith stated that this shouldn't happen in new IT contract due to the union requirements and the nature of the work that contractors will be doing under a new agreement.

Member Bass asked if CMS is not satisfied with current master contract? Mr. Smith stated that the new method would lower costs. CMS won't immediately alter the current master contract; won't immediately wipe out it out either.

Chairman Healy asked what other areas of procurement this will be used? Mr. Smith responded court reporting, other types of IT, and other types of high use services requiring multiple vendors. This approach will see minimal usage.

Member Triche Colvin- How will the need be filled for IT if the current contract ends 12/31/05? Mr. Smith stated that there will be a gap but the Agencies are able to still satisfy certain need with contractors from the master contract in place.

Chairman Healy asked if there would be an annual pre-qualification? Mr. Smith replied affirmatively that the rule specifies at least annually. Mr. Smith stated that the challenge lies in the measure of work and equal distribution of dollars expended.

Member Morales asked who's responsible for that process? Mr. Smith stated that CMS through its IT administration. If another Agency acts independently, then they are responsible. Chairman Healy asked what if Vendor A gets small dollar value work and the next job to Vendor B is high dollar value work? Mr. Smith stated that potentially a larger value job would break up so the work is distributed on the large project. Trial and error will determine some of the methodology when CMS sees how contractors perform. At this point, we don't know how much work there will be to create division now.

Member Morales asked how would it affect Small Business Set Aside? Mr. Smith stated that in the rule, if the need arises, we could set aside for small businesses. Member Morales asked if

there would be a required percentage for SBSA? Mr. Smith stated that we'll know after the first run how much went to SBSA; there is no goal.

Chairman Healy asked if the vendors will vendor know how this works? Mr. Smith stated that it would be specified in the RFP. Member Morales asked how long the contract would last? Mr. Smith stated that 6 months is the specified timeframe in the agreement with a limited opportunity for up to a year with a possible year extension for some limited circumstances.

Chairman Healy asked if the dollar value would listed be on each award? Mr. Smith responded that the vendors selected through the rate card process would be published and the dollar value will be listed.

Member Triche-Colvin asked for the downside? Mr. Smith stated that equal distribution of work would be a challenge; benchmarking the rate at the appropriate level will take significant work. Member Morales asked if CMS has thought about how they're going to benchmark. Mr. Smith stated that they are still developing the methodology. Member Morales stated that this something that would continue to come up throughout and after the transaction. How you came up with this number is an important detail. Mr. Smith stated that CMS would have a paper trail. Chairman Healy asked that CMS keep the Board updated.

Mr. Smith next gave a Bulletin update he stated that the posting renewals was underway and that identifying sub-contractors and listing of all vendors was now part if the Bulletin. He stated that there continued to be problems with IGPS postings and that the two software sets required further adjustments to be fully compatible and that the changes were underway. The Board had no questions.

On the subject of Facilities Management, Mr. Bruce Washington stated that CMS was still in the process of completing a final draft of parking policy, which was sent to the Governors Office for review and will be forwarded to Board upon completion of that review.

Chairman Healy asked how long? Mr. Washington hoped to have it prior to next meeting. Chairman Healy asked if any renewals were being considered? He stated that he sees some on the list going back 6 years (1999). Mr. Washington stated that we are addressing those. The moratorium on leases has been lifted now that new lease documents are available and CMS is working on them. Chairman Healy asked if there be any be leases posted prior to the next Board meeting. Mr. Washington stated that he was working with PPB staff to get legal opinion on procurement processes regarding renewals and that with that opinion; He believes it will help accelerate the process.

Member Morales asked of the draft on parking policy-is there no current procedure in place, can we look at it while the Governor's is making their review? Mr. Washington stated that he believed the protocol should be for the Governor's office to review first.

Member Bedore stated that 66% of the holdover leases expired in the last 3 years, 7 leases are 5 years old

1 lease is 10 yrs old - 8/31/95 in DuPage County. He stated the Board just about an IT problem with a 12/31/2005 deadline. CMS knew 12/31 was coming. He said he didn't want an excuse 6 months from now if this legislation passes limiting holdover terms, under changes in the law

they'll have to get done. 66% expired under this Administration. He stated for the record that he will vote against any extensions on these leases.

Mr. Washington stated that CMS was in anticipation of the new legislation's effect. He stated that some RFP's take time but we know we can accelerate the process & don't see a problem. Chairman Healy stated you don't see a problem getting these done by July? Mr. Washington replied that no, I don't see a problem implementing the law. Mr. Washington stated it would make our role quite difficult. It takes 6 months to do a lease. We're going to have to create some methodology. Member Morales states it's not just the Board asking. The General Assembly is concerned with this issue.

Chairman Healy – If you feel that it will be a problem, if the law passes, what time period will it take to get this done? Mr. Washington stated that by January 07 the may not all be executed. Chairman Healy stated that you've had time already to start the negotiations on a number of these Mr. Washington –stated that CMS was not prepared and has recently lifted the moratorium. Chairman Healy stated that we expect to see progress considering the number of leases that are outstanding. Mr. Washington stated that we are working to get leases before the Board. Member Morales asked what steps are being taken now? Mr. Washington replied negotiating, staffs are moving forward with the process. Member Bedore asked how many leases are being negotiated and can we have the list? Mr. Washington stated that 20-25 and there's more than just negotiations. Member Bedore asked how many RFPs are out? Mr. Washington replied many Chairman Healy stated to keep us updated with numbers so we can see your progress.

Next on the agenda was an administrative rules. Mike Smith and Ben Bagby represented CMS on their Standard Procurement Rules. Chairman Healy stated that these were tabled at last meeting for further review; He asked specifically what allowed CMS to exceed the 10-year term limit for contracts established in the Procurement Code.

Mr. Bagby stated that there might be situations where the State needs the vendor to go beyond 10 yrs. The state is not bound, but the vendor would be. For example, bonds. Insurance is needed to back up bonds. The insurance would be available the Bonds are paid at the vendor's commitment not the State's. Maintenance on high tech generators; the State would want a vendor to be able to service this equipment and would want the vendor around as long as we have the equipment. It is very infrequent that this provision gets will be used. Mr. Bedore asked if we are talking about a small amount of contracts. Member Morales stated that it almost sounds like sole source circumstances. Mr. Bagby stated that the State could go out to bid. Chairman Healy said the State seems to be locked in. Mr. Bagby said the vendor is locked in, not the State.

Mr. Bagby continued regarding duration. The Code is designated to protect the State. There is no way we can be bound to pay a vendor beyond 10 yrs.

Member Bass asked why posting requirements for emergencies are changed to 10 days from 14. Mr. Bagby responded to keep it similar to the 10 day filing of affidavit with the Auditor General.

Member Bedore made a motion to accept rules as presented. Member Morales provided a second and the motion was unanimously approved.

Regarding Rate Card Emergency Rules, Member Morales asked for follow up, he wanted to see some details; the system is not perfect and has uncertainties. Mr. Smith said he would keep the Board apprised of the permanent rule progress and development.

Executive Director Brown lastly provided a summary from the legislative veto session. Upon conclusion the Board asked for continued updates as the Spring Session opens. The Board had no additional comments.

The motion to adjourn was made by Member Bedore, seconded by Member Morales and passed unanimously.